

**FINANCIAL STATEMENTS**

**TOWN OF PONCE INLET, FLORIDA**

For the Year Ended September 30, 2014  
With Independent Auditors' Reports

**MAYOR**

Honorable Gary Smith

**VICE MAYOR**

Mary Hoss

**TOWN COUNCIL MEMBERS**

Tami Lewis  
Bill Milano  
Joe Perrone

**TOWN MANAGER**

Jeanen Witt, CMC

**FINANCE MANAGER**

Emily Kroeger

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September 30, 2014  
TOWN OF PONCE INLET, FLORIDA

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## ***FINANCIAL SECTION***

***THIS SECTION IS COMPOSED OF THE FOLLOWING FIVE PARTS:***

***INDEPENDENT AUDITORS' REPORT***

***MANAGEMENT'S DISCUSSION AND ANALYSIS***

***BASIC FINANCIAL STATEMENTS***

***REQUIRED SUPPLEMENTARY INFORMATION***

***COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES***

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***INDEPENDENT AUDITORS' REPORT***

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## **INDEPENDENT AUDITORS' REPORT**

To the Honorable Mayor  
and Members of the Town Council  
Town of Ponce Inlet, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Ponce Inlet, Florida (the "Town") as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents. We did not audit the financial statements of the Ponce DeLeon Inlet Lighthouse Preservation Association, Inc., the discretely presented component unit, which represent 100 percent of the assets, net position, and revenues of the discretely presented component unit.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Ponce DeLeon Inlet Lighthouse Preservation Association, Inc., the discretely presented component unit, which represent 100 percent of the assets, net position, and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Ponce DeLeon Inlet Lighthouse Preservation Association, Inc., the discretely presented component unit, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's

internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Ponce Inlet, Florida, as of September 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund, Timucuan Oaks Special Revenue Fund, and Public Land Acquisition and Facility Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Uncertainties Regarding the Future Outcome of Litigation**

As discussed in Note 17 to the financial statements, the Town has received Final Judgment in the lawsuit which alleged damages from land use decisions made by the Town Council. The Town has filed an appeal to the Judgment which it will vigorously pursue. The ultimate outcome of the lawsuit cannot presently be determined, but management is of the opinion that the Judgment entered against the Town was in error and contains misinterpretation and misapplication of the law. At this stage, it is impracticable to render an opinion about whether the probability of an unfavorable outcome to the appeal. Accordingly, no provision for any liability that may result has been made in the financial statements. Nevertheless, due to uncertainties with the lawsuit, it is at least reasonably possible that management's view of the outcome will change in the near term.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions listed under required supplementary information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Honorable Mayor  
and Members of the Town Council  
Town of Ponce Inlet, Florida  
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*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2015, on our consideration of the Town of Ponce Inlet, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Ponce Inlet, Florida's internal control over financial reporting and compliance.

BMC CPAs

February 26, 2015

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***MANAGEMENT'S DISCUSSION AND ANALYSIS***

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As financial management of the Town of Ponce Inlet, Florida, (hereinafter referred to as the "Town"), we offer the readers of these basic financial statements this narrative overview and analysis of the Town's financial activities for the fiscal year that ended on September 30, 2014. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the Town's financial statements, which follow this information.

### **Financial Highlights**

- The Town's overall combined assets totaled \$19,119,276 at the close of the 2014 fiscal year compared to \$19,011,971 last year. Total assets exceeded liabilities by \$13,473,514 (*combined net position*) compared with \$13,209,051 one year earlier. The unrestricted component of the Town's combined net position totaled \$3,316,493 at year end, compared with \$3,105,295 one year earlier. This amount represents the unrestricted amount that may be used to meet the Town's ongoing obligations to citizens and creditors.
- Net position of the Town's governmental activities totaled \$11,524,742, an increase of \$266,807 over last year's reported \$11,257,935, or 2.4%. Net position of its business-type activities totaled \$1,948,772, a decrease of \$2,344 under last year's \$1,951,116, or -0.1%.
- During 2014, the Town incurred governmental expenses of \$5,479,578, which were \$266,807 less than the \$5,746,385 generated in revenues (taxes and all other governmental sources) and transfers for providing its various governmental activities and programs. Included in this amount is \$47,000 representing net interfund transfers from the Town's business-type funds for partial reimbursement of administrative costs. The 2014 increase in net position of \$266,807 was \$189,648 greater than the \$77,159 increase reported in the net position of the governmental operations in 2013.
- The Town's business-type activities produced a combined operating profit (before contributions and operating transfers) of \$35,705 during 2014 based exclusively on consumptive water/sewer/solid waste utility sales and other revenues of \$2,344,592 (\$2,302,500 in 2013). After recognition of capital contributions of \$8,951 and net interfund transfers out of \$47,000, the decrease in combined net position totaled \$2,344 in 2014, compared to a decrease of \$151,779 in 2013.
- Combined fund balances in the General Fund increased by \$234,756 in 2014 and totaled \$2,542,022, compared to the increase in 2013 of \$134,182 resulting in a total of \$2,307,266. The Town's cost of legal services, most of which was incurred to defend the Town in a civil suit, totaled \$982,818 in 2014, compared to \$733,818 in 2013 and represent approximately 20% and 16%, respectively, of total General Fund expenditures. Amounts committed by the Town Council for a stabilization reserve (\$1,332,377) and other unassigned fund balance (\$879,646) totaled \$2,212,023 at the end of 2014. This amount increased in 2014 and was \$282,285 greater than the \$1,929,738 reported one year earlier. These amounts represent approximately 44% (162 days) and 43% (155 days) of reported General Fund expenditures for 2014 and 2013, respectively.
- The Town's total long-term debt represented by loan obligations totaled \$4,459,663 at the end of 2014, compared to \$4,774,624 at the end of 2013. In addition to its long-term loans, the Town has \$304,039 and \$291,988 in compensated absences liabilities outstanding at the end of 2014 and 2013, respectively, (e.g., accrued sick and personal leave). Principal reductions on the Town's long-term debt in 2014 totaled \$314,961, compared to \$304,054 one year earlier.

## **Overview of the Financial Statements**

The Town's basic financial statements are comprised of three parts: 1) management's discussion and analysis, 2) the basic financial statements, including notes to the financial statements, and 3) required supplementary information, including budgetary comparisons and fiduciary fund data.

Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the basic financial statements and required supplementary information. The MD&A represents management's examination and analysis of the Town's financial condition and financial performance as a whole. Summary financial statement data, key financial and operational indicators used in the strategic plan, budget, and other management tools were used for this analysis.

The basic financial statements include two kinds of statements that present different views of the Town. The first two statements consist of entity-wide financial statements that provide both the short- and long-term financial information about the Town's overall financial status, including its governmental activities and its business-type activities. These statements report information about the Town using full accrual accounting methods and economic resources focus as utilized by similar business activities in the private sector. Information concerning all of the Town's assets and liabilities, both financial and capital, and short-term and long-term debt are included. Likewise, all revenues and expenses received during the year, regardless of when cash is received or paid are reported. However, rate-regulated accounting principles applicable to private sector utilities are not used by governmental utilities. The remaining statements are fund financial statements that focus on individual parts of the Town government, reporting the Town's operations in more detail than the government-wide financial statements. The governmental funds' statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending. Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses, such as the Town's water, sewer and refuse utility systems.

The financial statements also include notes which provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Town's significant accounting policies, account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. This section also contains budgetary comparisons for the Town's governmental fund activities.

## **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances in a manner similar to a private-sector business. The basic financial statements of the Town include a statement of net position and a statement of activities, which are described as follows:

- A statement of net position presents information on all of the Town's assets and liabilities at the end of its fiscal year, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the Town's financial position is improving or deteriorating. Net position increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net position, which indicates an improved financial condition.

- The statement of activities presents the results of business operations over the course of the fiscal year and information as to how the Town's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., delinquent taxes; earned but unused personal leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*government activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government services, public safety (police, fire and building inspection), transportation and streets (public works), stormwater management and recreation and leisure services. The business-type activities of the Town include its water, sewer and refuse utility systems.

The government-wide financial statements include not only the Town of Ponce Inlet itself (known as the primary government), but also the financial data of the Ponce DeLeon Inlet Lighthouse Preservation Association, Inc. (the "Lighthouse Association"), for which the Town is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself. Complete financial statements of the Lighthouse Association component unit can be obtained directly from the Association's Administrative Office at 4931 South Peninsula Drive, Ponce Inlet, FL 32127.

## **Fund Financial Statements**

The fund financial statements provide more detailed information about the Town's most significant funds - not the Town as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

***Governmental Funds.*** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can be readily converted into cash. Such information may be useful in evaluating the government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances are supplemented with a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Timucuan Oaks Special Revenue Fund, Public Land Acquisition and Facility Special Revenue Fund, and Debt Service Fund, all of which are considered to be major funds. Data from the other five governmental funds are combined into a single, aggregated

presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining and individual fund budgetary statements in the other supplementary information section of this report.

**Proprietary Funds.** Services for which the Town charges customers a fee are generally reported in proprietary funds. Proprietary fund financial statements, like the government-wide statements, provide both long- and short-term financial information. The Town's three enterprise funds (water, sewer and refuse utility systems, all of which are considered major funds of the Town) are aggregated in the business-type activities presented in the government-wide statements. Since the accounting for these operations is similar to that provided in the government-wide financial statements, the fund financial statements provide limited supplemental information in more detail, such as cash flows data.

### Financial Analysis of the Town as a Whole

**Net position.** As noted previously, net position may serve over time as a useful indicator of a government's financial position. This year, the Town's combined total assets exceeded liabilities (net position) by \$13,473,514 at the end of 2014 (compared to \$13,209,051 at the end of 2013), which is summarized as follows:

<b>Net Assets</b>						
September 30, 2014 and 2013						
	Governmental		Business-type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
<b>Assets:</b>						
Current and other assets.....	\$ 3,686,090	3,332,192	937,473	866,381	4,623,563	4,198,573
Restricted assets.....	-	-	73,533	70,087	73,533	70,087
Capital assets, net.....	<u>12,930,206</u>	<u>13,217,971</u>	<u>1,491,974</u>	<u>1,525,340</u>	<u>14,422,180</u>	<u>14,743,311</u>
Total assets.....	<u>16,616,296</u>	<u>16,550,163</u>	<u>2,502,980</u>	<u>2,461,808</u>	<u>19,119,276</u>	<u>19,011,971</u>
<b>Liabilities:</b>						
Long-term debt.....	4,459,663	4,774,624	-	-	4,459,663	4,774,624
Other liabilities.....	<u>631,891</u>	<u>517,604</u>	<u>554,208</u>	<u>510,692</u>	<u>1,186,099</u>	<u>1,028,296</u>
Total liabilities.....	<u>5,091,554</u>	<u>5,292,228</u>	<u>554,208</u>	<u>510,692</u>	<u>5,645,762</u>	<u>5,802,920</u>
<b>Net Assets:</b>						
Invested in capital assets, net of related debt.....	8,470,543	8,443,347	1,491,974	1,525,340	9,962,517	9,968,687
Restricted.....	120,971	68,291	73,533	66,778	194,504	135,069
Unrestricted.....	<u>2,933,228</u>	<u>2,746,297</u>	<u>383,265</u>	<u>358,998</u>	<u>3,316,493</u>	<u>3,105,295</u>
Total net assets.....	<u>\$ 11,524,742</u>	<u>11,257,935</u>	<u>1,948,772</u>	<u>1,951,116</u>	<u>13,473,514</u>	<u>13,209,051</u>

One of the most significant components of the Town's net position (74%) is its investment in capital assets (land, buildings, building improvements, and equipment), less any related debt used to acquire or construct those assets, which is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The Town also has a small investment (1%) in other restricted net position, consisting of unspent local option fuel taxes (\$96,737), judgments and fines restricted for police education (\$11,607), court ordered confiscations and forfeitures restricted for police investigations (\$8,207), amounts restricted for debt service payments (\$4,420), and utility impact fees restricted for utility expansion (\$73,533).

Consequently, the remaining 25% of unrestricted net position represents amounts that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, which totaled \$3,316,493 at the end of 2014 and \$3,105,295 at the end of 2013.

**Changes in Net position.** While the statement of net position shows a snapshot of the Town's financial position at the end of the fiscal year, the statement of changes in net position provides answers as to the nature and sources of those changes. During 2014, the Town's total revenues increased by \$679,033 (or 9.2%) and totaled \$8,052,928, compared to \$7,373,895 the prior year. This year's increase was primarily due to the anticipated increase in ad valorem taxes, which increased by \$669,019 in 2014.

During 2014, approximately 51% of the Town's total revenue was derived from property taxes, while 58 cents of every dollar raised came from some form of tax. Another 37% was produced from fees charged for services, while the substantial portion of the remainder is from capital/operating grants and contributions, intergovernmental revenues and other sources (5%). The total costs of providing all of the Town's routine programs and services increased by \$339,950 in 2014, which represents a increase of approximately 4.6% overall. Amounts totaled \$7,788,465 for 2014, compared to \$7,448,515 in the prior year. The majority of this increase was from a rise in legal fees in 2014. Amounts incurred in 2014 totaled \$982,818, compared to \$733,818 in 2013, the material portion of which was incurred to defend the Town in an ongoing civil suit.

Overall, the Town's revenues increased by about 9.2% compared to last year. The Town's expenses for its combined governmental and business activities increased by about 4.6% compared to the prior year. The Town's combined net position increased in 2014 by \$264,463, compared to a decrease in the prior year of \$74,620. The following is a summary of changes in net position for the fiscal year:

**Changes in Net Assets**  
For the Years Ended September 30, 2014 and 2013

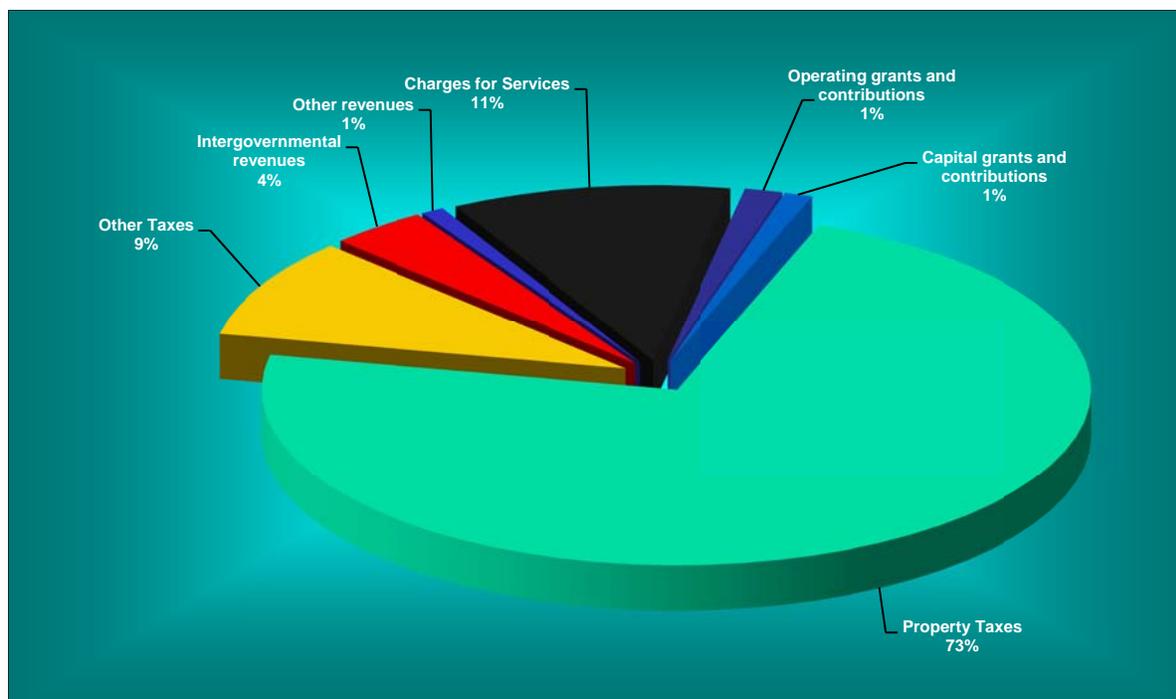
	Governmental		Business-type		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<b>Revenues:</b>						
Current charges for services.....	\$ 622,204	640,704	2,344,099	2,300,142	2,966,303	2,940,846
Operating grants/contributions.....	82,572	81,941	-	-	82,572	81,941
Capital grants/contributions.....	61,554	65,135	8,951	7,306	70,505	72,441
<b>General revenues:</b>						
Property taxes.....	4,139,703	3,470,684	-	-	4,139,703	3,470,684
Other taxes.....	524,004	521,067	-	-	524,004	521,067
Intergovernmental.....	219,037	209,848	-	-	219,037	209,848
Other revenues.....	<u>50,311</u>	<u>74,710</u>	<u>493</u>	<u>2,358</u>	<u>50,804</u>	<u>77,068</u>
Total revenues.....	<u>5,699,385</u>	<u>5,064,089</u>	<u>2,353,543</u>	<u>2,309,806</u>	<u>8,052,928</u>	<u>7,373,895</u>
<b>Expenses:</b>						
General government.....	1,928,219	1,652,129	-	-	1,928,219	1,652,129
Public safety.....	2,657,833	2,612,370	-	-	2,657,833	2,612,370
Physical environment.....	102,365	121,973	-	-	102,365	121,973
Transportation.....	435,825	387,863	-	-	435,825	387,863
Culture/recreation.....	187,011	168,324	-	-	187,011	168,324
Interest expense.....	168,325	179,271	-	-	168,325	179,271
Water system.....	-	-	1,276,982	1,298,142	1,276,982	1,298,142
Sewer system.....	-	-	886,498	887,330	886,498	887,330
Refuse/solid waste system.....	-	-	<u>145,407</u>	<u>141,113</u>	<u>145,407</u>	<u>141,113</u>
Total expenses.....	<u>5,479,578</u>	<u>5,121,930</u>	<u>2,308,887</u>	<u>2,326,585</u>	<u>7,788,465</u>	<u>7,448,515</u>
Transfers in (out).....	<u>47,000</u>	<u>135,000</u>	<u>(47,000)</u>	<u>(135,000)</u>	-	-
Increase in net assets.....	266,807	77,159	(2,344)	(151,779)	264,463	(74,620)
Net assets, beginning of year.....	<u>11,257,935</u>	<u>11,180,776</u>	<u>1,951,116</u>	<u>2,102,895</u>	<u>13,209,051</u>	<u>13,283,671</u>
Net assets, end of year.....	<u>\$ 11,524,742</u>	<u>11,257,935</u>	<u>1,948,772</u>	<u>1,951,116</u>	<u>13,473,514</u>	<u>13,209,051</u>

## Governmental Activities

Revenues for the Town's governmental activities were approximately 12.5% greater than the amount of revenue earned in the prior fiscal year, the majority of which was attributed to substantially increased collections of ad valorem taxes in 2014 which were up \$669,019 over the prior year. Overall, the Town's governmental revenues totaled \$5,699,385 in 2014, which represents an increase of \$635,296 over last year's reported revenues of \$5,064,089. The following is a summary of the Town's governmental revenues by source:

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### Revenues by Source - Governmental Activities



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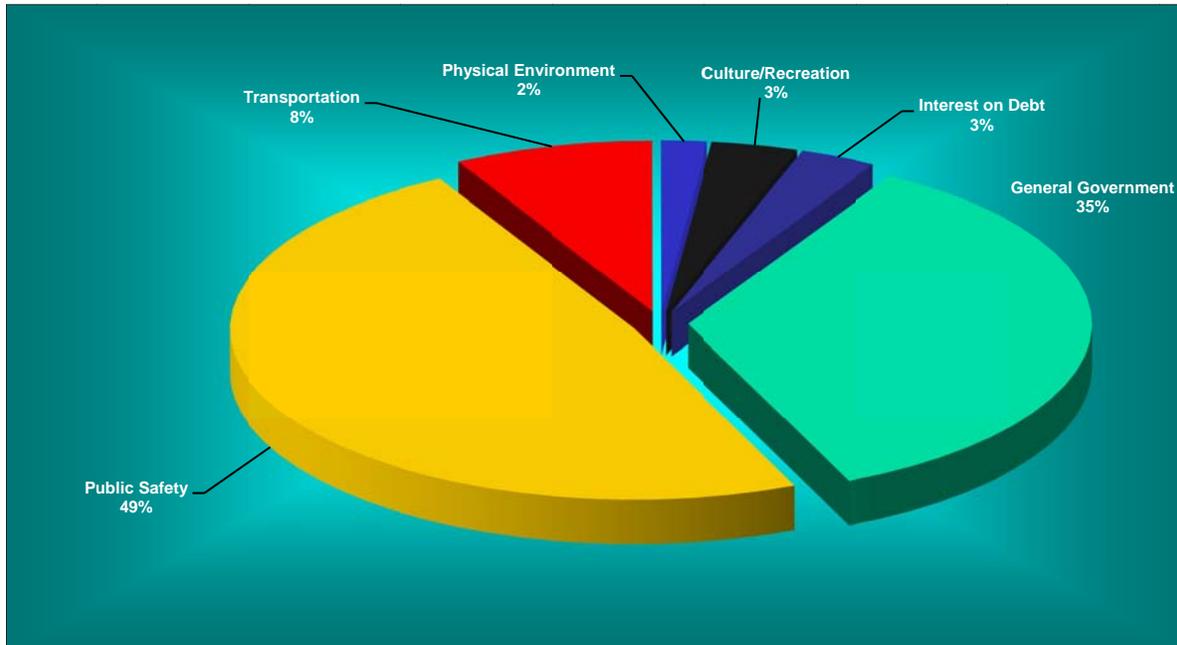
Overall, the Town experienced an increase in expenses for the Town's combined governmental activities. Governmental fund expenses increased by \$357,648 in 2014, or 7%, and totaled \$5,479,578 for the year ended September 30, 2014, compared to a total of \$5,121,930 incurred during the prior year. The largest increase experienced in 2014 was in legal expenses incurred to defend the Town in a civil suit. Legal department expenses increased by \$249,000 in 2014 and totaled \$982,818, compared to a total of \$733,818 incurred in 2013. It is anticipated that these expenses will continue to be incurred in FY 2015 in defending the Town in an ongoing legal dispute.

The Town's public safety (police, fire and inspection) function expenses are the most significant component of cost. During 2014 public safety costs totaled \$2,657,833, or 49% (compared to 51% last year), of the Town's total governmental expenses. The Town's general government function expenses are the next largest segment and totaled \$1,928,219 for the year, or 35% (compared to 32% last year), of the Town's total operating expenses. The Town's stormwater, transportation and recreation functions combined totaled \$725,201 for the year, or 13% (compared to 13% last year), of the total governmental expense. Interest expense on all of the Town's general long-term debt obligations totaled \$168,325 for the year, or 3% (compared to 4% last year), of the total governmental expense.

The following is a summary of the Town's governmental expenses by function:

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### Expenses by Function - Governmental Activities



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### Business-type Activities

The major sources of operating revenues for the Town's business-type activities are charges for services attributed to its water, sewer and refuse utilities. Potable water is purchased in bulk from the City of Port Orange and sold to the Town's customers under rates established by the Town. Sewer collection services are billed by the Town on behalf of the City of Port Orange under rates established by Port Orange, all of which is remitted to Port Orange monthly. The Town collects an annual administrative fee for billing, collecting, and remitting all sewer charges and payments. The Town also bills utility connection and capacity fees on behalf of Port Orange under rates established by Port Orange, which are collected and subsequently remitted to Port Orange. Solid waste and recycling fees are charged to the Town's customers under rates established by the Town. An independent contractor is engaged by the Town to perform all collection and disposal activities.

Combined utility sales totaled \$2,344,099 in 2014, compared to \$2,300,142 in 2013. The Town also collected water and sewer impact/connection fees (included in reported total sales for 2014) totaling \$12,635 and \$32,534, respectively, which were remitted to the City of Port Orange. In addition to these charges, the Town received \$8,951 in water impact fees and \$493 in miscellaneous revenues and investment earnings during the recent fiscal year.

Combined operating expenses of the Town's business-type activities totaled \$2,308,887 in 2014, compared to \$2,326,585 in 2013. Depreciation expense on utility fund assets included in this amount totaled \$119,131 and \$124,556 for the years ended in 2014 and 2013, respectively.

## **Financial Analysis of the Town's Funds**

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As the Town completed the year, its governmental funds reported a combined fund balance of \$3,377,733, which was \$261,656 more than the \$3,116,077 reported at the close of 2013.

The general fund is the chief operating fund of the Town. At the end of 2014, the unassigned fund balance in the general fund totaled \$879,646, compared to \$757,803, one year earlier. Unassigned balances do not contain Town Council established stabilization (commitment) amounts of \$1,332,377 and \$1,171,935 for 2014 and 2013, respectively. Combined unassigned fund balances and stabilization amounts represent approximately 44% (23 weeks/162 days) of the Town's general fund spending for 2014, compared to 43% (22 weeks/155 days) in 2013.

The Public Land Acquisition and Facility special revenue fund was established in 2003 to separately account for the collection and disposition of the Town's franchise fee collections on solid waste and utility service taxes on providers of electricity and liquid propane in the Town (and pledged for debt service on the Town's Capital Improvement Revenue Note, Series 2005). These funds are restricted for the acquisition and improvement of real property in the Town. At the end of 2014, unreserved fund balance in this fund was \$696,231 compared to \$643,622 one year earlier. To better describe the activity of this fund in regard to the obligation of the aforementioned Revenue Note, Series 2005 (the Town Hall capital project), the Town continues to budget approximately \$327,000 per year in revenue towards loan payments so some of this fund's reserve each year is allocated in the budget to meet this obligation.

The Timucuan Oaks special revenue fund was established to separately account for the collection, matching and disposition of capital grant funds acquired to procure and develop park land within the Town. Amounts accumulated in the fund at the end of 2014 totaled \$69,261 (compared to \$92,396 one year earlier) and represent the Town's share of future costs anticipated to be expended on capital projects in FY 2015.

Fund balances in the remainder of the Town's non-major special revenue and capital projects funds increased by \$1,564 in 2014 and totaled \$65,799, compared to \$64,235 at the end of the prior year.

**Proprietary Funds.** The Town's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water Utility Fund at the end of the year amounted to \$369,951. Unreserved equity in the Town's Sewer Utility Fund (which is operated on a pass-through basis in conjunction with an Agreement with the City of Port Orange, Florida), totaled \$6,052 at the end of the year, all of which will ultimately be transferred to the Town's General Fund. Unreserved fund equity in the Town's Refuse Utility Fund totaled \$7,262 at year end. Net operating transfers totaling \$47,000 were transferred to governmental funds during 2014 in the form of excess equity, reimbursements for capital acquisitions and operating transfers. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

## General Fund Budgetary Highlights

Over the course of the year, the Town Council revised the Town's operating budget. These budget amendments fall into two categories:

- Amendments and supplemental appropriations were approved midway through the year to reflect the actual opening account balances (correcting estimated amounts in the budget adopted at the beginning of the year).
- Increases/decreases in line item budget appropriations to prevent budget overruns.

Actual earned revenues were \$14,679 greater than the final amounts anticipated to be received during the year in the Town's General Fund. Actual expenditures incurred were \$183,373 below the \$5.2 million amended budget appropriations provided in the 2014 operating budget. The Town's General Fund operated at a surplus, (\$234,756) with transfer activities included, and was not required to draw from existing fund balance and/or surplus reserves to meet spending obligations for the year.

## Capital Assets and Debt Administration

**Capital Assets.** At September 30, 2014, the Town had \$20.5 million invested in a broad range of capital assets, including land, buildings, park facilities, police equipment, public works equipment and water lines. This investment in capital assets, net of depreciation, for all activities is reflected in the following schedule:

<b>Capital Assets</b>						
September 30, 2014 and 2013						
	Governmental Activities		Business-type Activities		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land and land rights .....	\$ 4,569,460	4,569,460	4,033	4,033	4,573,493	4,573,493
Buildings .....	5,410,304	5,411,804	-	-	5,410,304	5,411,804
Improvements other than buildings .....	4,710,524	5,026,966	3,150,069	3,150,069	7,860,593	8,177,035
Equipment and furniture .....	<u>2,465,555</u>	<u>2,339,505</u>	<u>148,335</u>	<u>151,901</u>	<u>2,613,890</u>	<u>2,491,406</u>
	17,155,843	17,347,735	3,302,437	3,306,003	20,458,280	20,653,738
Less: accumulated depreciation .....	<u>(4,225,637)</u>	<u>(4,129,764)</u>	<u>(1,892,695)</u>	<u>(1,780,663)</u>	<u>(6,118,332)</u>	<u>(5,910,427)</u>
	12,930,206	13,217,971	1,409,742	1,525,340	14,339,948	14,743,311
Construction in progress .....	-	-	82,232	-	82,232	-
Net capital assets .....	<u>\$ 12,930,206</u>	<u>13,217,971</u>	<u>1,491,974</u>	<u>1,525,340</u>	<u>14,422,180</u>	<u>14,743,311</u>

**Long-term Debt.** At year end, the Town had \$4,459,663 in governmental activities long-term note and promissory loan obligations outstanding, compared to \$4,774,624 one year earlier. All of the Town's long-term debt is secured solely by specified revenue sources and is not backed with the full faith and credit of the government. These obligations and the Town's compensated absences liabilities are reflected in the following schedule:

<b>General Long-Term Debt</b>						
September 30, 2014 and 2013						
	Governmental		Business-type		Total	
	Activities		Activities			
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Capital Improvement Revenue						
Note, Series 2005.....	\$ 2,858,957	3,061,957	-	-	2,858,957	3,061,957
Florida Department of Environmental Protection State Revolving Fund Loan.....	<u>1,600,706</u>	<u>1,712,667</u>	<u>-</u>	<u>-</u>	<u>1,600,706</u>	<u>1,712,667</u>
	4,459,663	4,774,624	-	-	4,459,663	4,774,624
Compensated absences	<u>269,917</u>	<u>259,371</u>	<u>34,122</u>	<u>32,617</u>	<u>304,039</u>	<u>291,988</u>
General long-term debt.....	<u>\$ 4,729,580</u>	<u>5,033,995</u>	<u>34,122</u>	<u>32,617</u>	<u>4,763,702</u>	<u>5,066,612</u>

The Town has a 2005 capital improvement revenue note obligation payable to Bank of America totaling \$2,858,957 at year end. The proceeds of this Series 2005 loan were used to finance the acquisition of land and the construction of a Town Hall and Public Safety Complex. The Town makes semi-annual debt service payments on this obligation until 2024.

The Town has a low interest loan program offered by the Florida Department of Environmental Protection Clean Water State Revolving Fund Loan Program. The proceeds of this construction loan were used to develop and rehabilitate the Town's stormwater management infrastructure. The Town makes semi-annual debt service payments on this obligation until 2026. The balance due on this loan at year end was \$1,600,706.

**Economic Factors and Next Year's Budgets and Rates**

Many factors are considered each year by the Town Council in its efforts to establish an operating budget, to evaluate its personnel needs, and to develop uniform utility fees that are reasonable, and more importantly, capable of cost recovery. Some of the major factors considered in this process are the local economy, civilian labor force, unemployment rates, and inflation rates.

- The most recent estimates available for unemployment data in Volusia County, Florida are compiled by the Florida Agency for Workforce Innovation on the Florida Research and Economic Information Database Application (FREIDA). This agency estimates a countywide unemployment rate of 5.9% at the end of September 2014, which is below the 6.5% rate experienced one year earlier. These estimates are consistent with the State of Florida's 6.1% and 6.9% unemployment rates at September 2014 and 2013, respectively, while the reported overall national unemployment rate is slightly lower at 5.7 and 7.0%, respectively.
- Inflationary trends for Volusia County are consistent with those trends experienced at the state and national levels.

- The overall Taxable Value (Just Value less statutory exemptions) of real and personal property on the 2014 levy increased 5.5% from \$659 million to \$695 million in October 2013 and 2014, respectively. The Town Council voted to decrease the operating millage for the 2014 levy to 6.1536 mills, which was 19.5% less than the 6.5000 mills in the 2013 levy and is equal to the 2014 roll-back rate of 6.1536 mills.

In the process of presenting a balanced operating budget for the General Fund for 2014-2015 and to meet the challenges discussed above, a complete departmental review of the operational needs of each department was considered and submitted to the Town Manager for approval prior to being compiled and submitted to the Town Council for inclusion in the final budget.

### **Requests for Information**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to the Office of the Town Manager, Town of Ponce Inlet, Florida, 4300 South Atlantic Avenue, Ponce Inlet, Florida 32127.

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***BASIC FINANCIAL STATEMENTS***

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**STATEMENT OF NET POSITION**  
September 30, 2014  
TOWN OF PONCE INLET, FLORIDA

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Lighthouse Association
<b>Assets:</b>				
Cash and cash equivalents.....	\$ 1,856,524	447,361	2,303,885	466,728
Investments.....	1,500,397	250,083	1,750,480	185,667
Receivables, net.....	210,530	227,902	438,432	-
Inventories.....	7,003	-	7,003	203,237
Prepaid expenses.....	111,636	12,127	123,763	1,703
Other current assets.....	-	-	-	8,594
Temporarily restricted assets:				
Cash and cash equivalents.....	-	73,492	73,492	108,280
Investments.....	-	41	41	-
Capital assets:				
Land and construction in progress.....	4,569,460	86,265	4,655,725	407,450
Other capital assets, net of depreciation.....	<u>8,360,746</u>	<u>1,405,709</u>	<u>9,766,455</u>	<u>2,598,084</u>
Total assets.....	<u>\$ 16,616,296</u>	<u>2,502,980</u>	<u>19,119,276</u>	<u>3,979,743</u>
<b>Liabilities:</b>				
Accounts payable and accrued liabilities...	\$ 257,879	263,219	521,098	47,677
Deposits/unearned revenue.....	47,875	254,184	302,059	-
Accrued interest payable.....	31,205	-	31,205	-
Other postemployment benefits.....	25,015	2,683	27,698	-
Long-term debt:				
Due within one year.....	325,946	-	325,946	-
Due in more than one year.....	4,133,717	-	4,133,717	-
Compensated absences.....	<u>269,917</u>	<u>34,122</u>	<u>304,039</u>	<u>-</u>
Total liabilities.....	<u>5,091,554</u>	<u>554,208</u>	<u>5,645,762</u>	<u>47,677</u>
<b>Net Position:</b>				
Invested in capital assets, net of related debt.....	8,470,543	1,491,974	9,962,517	3,005,534
Restricted for:				
Utility expansion.....	-	73,533	73,533	-
Law enforcement.....	19,814	-	19,814	-
Debt service.....	4,420	-	4,420	-
Transportation.....	96,737	-	96,737	-
Recreation.....	-	-	-	108,280
Unrestricted.....	<u>2,933,228</u>	<u>383,265</u>	<u>3,316,493</u>	<u>818,252</u>
Total net position.....	<u>\$ 11,524,742</u>	<u>1,948,772</u>	<u>13,473,514</u>	<u>3,932,066</u>

The accompanying notes are an integral part of the financial statements.

**STATEMENT OF ACTIVITIES**  
For the Year Ended September 30, 2014  
TOWN OF PONCE INLET, FLORIDA

Functions / Programs	Program Revenues			
	Expenses	Charges For Service	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
Governmental activities:				
General government.....	\$ 1,928,219	331,247	-	-
Public safety.....	2,657,833	252,145	-	-
Physical environment.....	102,365	-	-	-
Transportation.....	435,825	-	82,467	61,554
Culture/recreation.....	187,011	38,812	105	-
Interest on long-term debt.....	<u>168,325</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities.....	<u>5,479,578</u>	<u>622,204</u>	<u>82,572</u>	<u>61,554</u>
Business-type Activities:				
Water utilities.....	1,276,982	1,264,842	-	8,951
Sewer utilities.....	886,498	908,612	-	-
Refuse utilities.....	<u>145,407</u>	<u>170,645</u>	<u>-</u>	<u>-</u>
Total business-type activities.....	<u>2,308,887</u>	<u>2,344,099</u>	<u>-</u>	<u>8,951</u>
Total primary government.....	<u>\$ 7,788,465</u>	<u>2,966,303</u>	<u>82,572</u>	<u>70,505</u>
<b>Component Units:</b>				
Lighthouse Association.....	<u>\$ 1,584,788</u>	<u>1,709,552</u>	<u>20,628</u>	<u>30,204</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes.....				
Public service taxes.....				
Other taxes.....				
Intergovernmental revenues.....				
Investment earnings (loss).....				
Miscellaneous.....				
Transfers.....				
Total general revenues and transfers.....				
Change in net position.....				
Net position - beginning of year.....				
Net position - end of year.....				

The accompanying notes are an integral part of the financial statements.

<u>Net (Expense) Revenue and Changes in Net Assets</u>			
<u>Primary Government</u>			<u>Component Unit</u>
<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Lighthouse Association</u>
(1,596,972)	-	(1,596,972)	
(2,405,688)	-	(2,405,688)	
(102,365)	-	(102,365)	
(291,804)	-	(291,804)	
(148,094)	-	(148,094)	
<u>(168,325)</u>	<u>-</u>	<u>(168,325)</u>	
<u>(4,713,248)</u>	<u>-</u>	<u>(4,713,248)</u>	
-	(3,189)	(3,189)	
-	22,114	22,114	
<u>-</u>	<u>25,238</u>	<u>25,238</u>	
<u>-</u>	<u>44,163</u>	<u>44,163</u>	
<u>(4,713,248)</u>	<u>44,163</u>	<u>(4,669,085)</u>	
			<u>175,596</u>
4,139,703	-	4,139,703	-
516,594	-	516,594	-
7,410	-	7,410	-
219,037	-	219,037	-
8,360	258	8,618	4,886
41,951	235	42,186	582
<u>47,000</u>	<u>(47,000)</u>	<u>-</u>	<u>-</u>
<u>4,980,055</u>	<u>(46,507)</u>	<u>4,933,548</u>	<u>5,468</u>
266,807	(2,344)	264,463	181,064
<u>11,257,935</u>	<u>1,951,116</u>	<u>13,209,051</u>	<u>3,751,002</u>
<u>\$ 11,524,742</u>	<u>1,948,772</u>	<u>13,473,514</u>	<u>3,932,066</u>

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
September 30, 2014  
TOWN OF PONCE INLET, FLORIDA

	General	Timucuan Oaks	Public Land Acquisition and Facility	Debt Service
<b>Assets:</b>				
Cash and cash equivalents.....	\$ 1,059,857	69,261	657,398	4,351
Investments.....	1,500,126	-	202	69
Receivables, net.....	70,091	-	38,631	-
Due from other governments.....	101,666	-	-	-
Inventories.....	7,003	-	-	-
Prepaid expenses.....	<u>111,636</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total assets.....</b>	<b><u>\$ 2,850,379</u></b>	<b><u>69,261</u></b>	<b><u>696,231</u></b>	<b><u>4,420</u></b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable and accrued expenses.....	\$ 257,879	-	-	-
Unearned revenue.....	<u>50,478</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total liabilities.....</b>	<b><u>308,357</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>Fund Balances:</b>				
Nonspendable.....	118,639	-	-	-
Restricted.....	96,737	-	-	4,420
Committed.....	1,332,377	-	696,231	-
Assigned.....	114,623	69,261	-	-
Unassigned.....	<u>879,646</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total fund balances.....</b>	<b><u>2,542,022</u></b>	<b><u>69,261</u></b>	<b><u>696,231</u></b>	<b><u>4,420</u></b>
<b>Total liabilities and fund balances.....</b>	<b><u>\$ 2,850,379</u></b>	<b><u>\$ 69,261</u></b>	<b><u>\$ 696,231</u></b>	<b><u>\$ 4,420</u></b>

The accompanying notes are an integral part of the financial statements.

Other Governmental Funds	Total- Governmental Funds
65,657	1,856,524
-	1,500,397
-	108,722
142	101,808
-	7,003
-	111,636
<u>65,799</u>	<u>3,686,090</u>
-	257,879
-	<u>50,478</u>
-	<u>308,357</u>
-	118,639
19,814	120,971
-	2,028,608
45,985	229,869
-	<u>879,646</u>
<u>65,799</u>	<u>3,377,733</u>
<u>\$ 65,799</u>	<u>\$ 3,686,090</u>

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**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION**  
September 30, 2014  
TOWN OF PONCE INLET, FLORIDA

Total governmental activities fund balances.....		\$ 3,377,733
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		12,930,206
Revenues in the statement of activities that do not provide current financial resources and, therefore, are not reported as revenue in the funds:		
Delinquent tax revenues.....		2,603
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Bonds and notes payable, and capital lease obligations.....	(4,459,663)	
Accrued interest payable.....	(31,205)	
Other postemployment benefit obligation payable.....	(25,015)	
Compensatory wages payable.....	(269,917)	<u>(4,785,800)</u>
Net position of governmental activities.....		<u>\$ 11,524,742</u>

The accompanying notes are an integral part of the financial statements.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2014  
TOWN OF PONCE INLET, FLORIDA

	General	Timucuan Oaks	Public Land Acquisition and Facility	Debt Service
<b>Revenue:</b>				
Taxes:				
Property taxes.....	\$ 4,144,279	-	-	-
Local option gas taxes.....	144,021	-	-	-
Public service taxes.....	173,290	-	343,304	-
Business taxes.....	7,410	-	-	-
Permits, fees and assessments.....	431,692	-	34,241	-
Intergovernmental revenue .....	219,142	-	-	-
Charges for services.....	123,198	-	-	-
Fines and forfeitures.....	28,330	-	-	-
Investment earnings (loss).....	8,463	50	(245)	60
Miscellaneous revenue.....	49,682	-	-	-
Total revenue.....	<u>5,329,507</u>	<u>50</u>	<u>377,300</u>	<u>60</u>
<b>Expenditures:</b>				
Current:				
General government.....	1,777,898	-	-	-
Public safety.....	2,658,136	-	-	-
Physical environment.....	18,663	-	-	-
Transportation.....	451,335	-	-	-
Culture/recreation.....	84,544	23,185	-	-
Debt service:				
Principal.....	-	-	-	314,961
Interest.....	-	-	-	170,472
Total expenditures.....	<u>4,990,576</u>	<u>23,185</u>	<u>-</u>	<u>485,433</u>
Excess of revenue over expenditures.....	<u>338,931</u>	<u>(23,135)</u>	<u>377,300</u>	<u>(485,373)</u>
<b>Other Financing Sources (Uses):</b>				
Operating transfers in.....	27,369	-	-	481,235
Operating transfers (out).....	(131,544)	-	(324,691)	-
	<u>(104,175)</u>	<u>-</u>	<u>(324,691)</u>	<u>481,235</u>
Excess of revenue and other sources (under) expenditures and other uses.....	234,756	(23,135)	52,609	(4,138)
Fund balances - beginning of year.....	<u>2,307,266</u>	<u>92,396</u>	<u>643,622</u>	<u>8,558</u>
Fund balances - end of year.....	<u>\$ 2,542,022</u>	<u>69,261</u>	<u>696,231</u>	<u>4,420</u>

The accompanying notes are an integral part of the financial statements.

Other Governmental Funds	Total- Governmental Funds
-	4,144,279
-	144,021
-	516,594
-	7,410
3,511	469,444
-	219,142
-	123,198
1,232	29,562
32	8,360
<u>3,698</u>	<u>53,380</u>
<u>8,473</u>	<u>5,715,390</u>
-	1,777,898
1,540	2,659,676
-	18,663
-	451,335
-	107,729
-	314,961
-	<u>170,472</u>
<u>1,540</u>	<u>5,500,734</u>
<u>6,933</u>	<u>214,656</u>
-	508,604
<u>(5,369)</u>	<u>(461,604)</u>
<u>(5,369)</u>	<u>47,000</u>
1,564	261,656
<u>64,235</u>	<u>3,116,077</u>
<u>65,799</u>	<u>3,377,733</u>

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**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2014  
TOWN OF PONCE INLET, FLORIDA

Net change in fund balances - total governmental funds.....		\$ 261,656
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:		
Expenditures for capital assets.....	231,968	
Less: net adjusted basis of current year asset disposals.....	(1,121)	
Less: current year provision for depreciation.....	<u>(518,612)</u>	(287,765)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds:		
Increase (decrease) in delinquent taxes.....		(4,576)
Some expenses reported in the statement of activities do not require the use of current financial resources are not reported as expenditures in the funds:		
(Increase) decrease in employee compensated absences.....	(10,546)	
(Increase) decrease in accrued interest on long-term debt obligations.....	2,147	
(Increase) decrease in other postemployment benefit obligation.....	<u>(9,070)</u>	(17,469)
Repayment of principal on long-term debt obligations is an expenditure in the governmental fund, but the repayments reduce long-term liabilities in the statement of net assets.....		<u>314,961</u>
Change in net position of governmental activities.....		<u>\$ 266,807</u>

The accompanying notes are an integral part of the financial statements.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL FUND**  
For the Year Ended September 30, 2014  
TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues:				
Taxes:				
Property taxes.....	\$ 4,158,940	4,167,168	4,144,279	(22,889)
Local option gas taxes.....	144,773	144,449	144,021	(428)
Public service taxes.....	185,356	185,356	173,290	(12,066)
Local business taxes.....	8,509	7,410	7,410	-
Permits and fees.....	379,594	422,552	431,692	9,140
Intergovernmental:				
Local half-cent sales tax.....	144,069	144,069	147,681	3,612
Other intergovernmental.....	72,364	73,001	71,461	(1,540)
Charges for services.....	98,888	86,076	123,198	37,122
Fines and forfeitures.....	16,600	25,555	28,330	2,775
Miscellaneous:				
Investment earnings (loss).....	13,940	9,358	8,463	(895)
Contributions and donations.....	5,125	10,007	10,141	134
Miscellaneous revenues.....	<u>27,548</u>	<u>39,827</u>	<u>39,541</u>	<u>(286)</u>
Total revenues.....	<u>5,255,706</u>	<u>5,314,828</u>	<u>5,329,507</u>	<u>14,679</u>
Expenditures:				
General Government:				
Legislative.....	123,538	121,749	118,440	3,309
Executive.....	325,999	315,102	310,617	4,485
Finance and administrative.....	33,900	32,026	31,638	388
Legal.....	1,409,320	1,027,500	982,818	44,682
Planning and zoning.....	<u>384,962</u>	<u>376,784</u>	<u>334,385</u>	<u>42,399</u>
	<u>2,277,719</u>	<u>1,873,161</u>	<u>1,777,898</u>	<u>95,263</u>
Public Safety:				
Police.....	1,229,316	1,250,724	1,222,341	28,383
Fire.....	1,054,789	1,078,884	1,055,850	23,034
Protective Inspection.....	<u>365,825</u>	<u>385,871</u>	<u>379,945</u>	<u>5,926</u>
	<u>2,649,930</u>	<u>2,715,479</u>	<u>2,658,136</u>	<u>57,343</u>
Physical Environment:				
Stormwater.....	<u>28,580</u>	<u>18,996</u>	<u>18,663</u>	<u>333</u>
Transportation:				
Public works facilities.....	355,506	425,900	412,337	13,563
Road and street facilities.....	<u>50,340</u>	<u>52,971</u>	<u>38,998</u>	<u>13,973</u>
	<u>405,846</u>	<u>478,871</u>	<u>451,335</u>	<u>27,536</u>

The accompanying notes are an integral part of the financial statements

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL - GENERAL FUND**  
 For the Year Ended September 30, 2014  
 TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	Original	Final		
Culture/Recreation.....	\$ 86,562	87,442	84,544	2,898
Total expenditures.....	5,448,637	5,173,949	4,990,576	183,373
Excess of revenue over (under) expenditures .....	(192,931)	140,879	338,931	198,052
Other Financing Sources (Uses):				
Transfers from:				
Tree Bank Fund.....	-	5,369	5,369	-
Police Education Fund.....	6,000	-	-	-
Contraband Forfeitures Fund.....	3,825	-	-	-
Sewer Fund.....	10,000	10,000	10,000	-
Refuse Fund.....	12,000	12,000	12,000	-
Appropriated fund balance.....	321,246	7,393	-	(7,393)
Appropriated for future use.....	(28,596)	(44,131)	-	44,131
Transfers to:				
Debt Service Fund.....	(131,544)	(131,510)	(131,544)	(34)
Total other financing sources (uses).....	192,931	(140,879)	(104,175)	36,704
Net change in fund balance.....	-	-	234,756	234,756
Fund Balance - Beginning of year.....	2,307,266	2,307,266	2,307,266	-
Fund Balance - End of year.....	\$ 2,307,266	2,307,266	2,542,022	234,756

The accompanying notes are an integral part of the financial statements

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL - TIMUCUAN OAKS SPECIAL REVEUNE FUND**  
 For the Year Ended September 30, 2014  
 TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	<u>Original</u>	<u>Final</u>		
Revenues:				
Miscellaneous:				
Investment earnings (loss).....	\$ 25	56	50	(6)
Total revenues.....	25	56	50	(6)
Expenditures:				
Culture/Recreation:				
Operating expenditures.....	12,850	20,440	21,091	(651)
Capital outlay.....	39,904	2,094	2,094	-
Total expenditures.....	52,754	22,534	23,185	(651)
Excess of revenue over (under) expenditures .....	(52,729)	(22,478)	(23,135)	(657)
Other Financing Sources (Uses):				
Appropriated fund balance.....	90,934	22,478	-	(22,478)
Appropriated for future use.....	(38,205)	-	-	-
Total other financing sources (uses).....	52,729	22,478	-	(22,478)
Net change in fund balance.....	-	-	(23,135)	(23,135)
Fund Balance - Beginning of year.....	92,396	92,396	92,396	-
Fund Balance - End of year.....	<u>\$ 92,396</u>	<u>92,396</u>	<u>69,261</u>	<u>(23,135)</u>

The accompanying notes are an integral part of the financial statements.

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL - PUBLIC LAND ACQUISITION AND FACILITY  
 SPECIAL REVENUE FUND**

For the Year Ended September 30, 2014  
 TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
Utility service taxes-electric.....	\$ 270,000	304,424	330,249	25,825
Utility service taxes-liquid propane.....	10,500	14,000	13,055	(945)
	<u>280,500</u>	<u>318,424</u>	<u>343,304</u>	<u>24,880</u>
Permits and fees:				
Franchise fees-solid waste.....	32,200	34,107	34,241	134
Miscellaneous Revenues:				
Investment earnings (loss).....	220	270	(245)	(515)
Total revenues.....	312,920	352,801	377,300	24,499
Total expenditures.....	-	-	-	-
Excess of revenue over (under) expenditures .....	<u>312,920</u>	<u>352,801</u>	<u>377,300</u>	<u>24,499</u>
Other Financing Sources (Uses):				
Operating transfer to Debt Service Fund.....	(324,691)	(326,683)	(324,691)	1,992
Appropriated fund balance.....	11,771	-	-	-
Appropriated for future use.....	-	(26,118)	-	26,118
Total other financing sources (uses).....	<u>(312,920)</u>	<u>(352,801)</u>	<u>(324,691)</u>	<u>28,110</u>
Net change in fund balance.....	-	-	52,609	52,609
Fund Balance - Beginning of year.....	643,622	643,622	643,622	-
Fund Balance - End of year.....	<u>643,622</u>	<u>643,622</u>	<u>696,231</u>	<u>52,609</u>

The accompanying notes are an integral part of the financial statements.

**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
September 30, 2014  
TOWN OF PONCE INLET, FLORIDA

	Business-type Activities - Enterprise Funds			
	Water Utility	Sewer Utility	Refuse Utility	Totals
<b>Assets:</b>				
<b>Current Assets:</b>				
Cash and cash equivalents.....	\$ 375,559	70,141	1,661	447,361
Investments.....	250,047	18	18	250,083
Restricted cash and cash equivalents.....	73,492	-	-	73,492
Restricted investments.....	41	-	-	41
<b>Receivables, net:</b>				
Accounts.....	31,972	16,357	2,863	51,192
Unbilled accounts.....	99,990	62,034	14,686	176,710
Prepaid expenses.....	<u>12,127</u>	<u>-</u>	<u>-</u>	<u>12,127</u>
<b>Total current assets.....</b>	<u>843,228</u>	<u>148,550</u>	<u>19,228</u>	<u>1,011,006</u>
<b>Noncurrent Assets:</b>				
<b>Capital Assets:</b>				
Land and land rights.....	4,033	-	-	4,033
Construction work in progress.....	82,232	-	-	82,232
Distribution system.....	3,150,069	-	-	3,150,069
General utilities equipment.....	<u>148,335</u>	<u>-</u>	<u>-</u>	<u>148,335</u>
	3,384,669	-	-	3,384,669
Less: accumulated depreciation.....	<u>(1,892,695)</u>	<u>-</u>	<u>-</u>	<u>(1,892,695)</u>
<b>Total noncurrent assets.....</b>	<u>1,491,974</u>	<u>-</u>	<u>-</u>	<u>1,491,974</u>
<b>Total assets.....</b>	<u>2,335,202</u>	<u>148,550</u>	<u>19,228</u>	<u>2,502,980</u>
<b>Liabilities:</b>				
Accounts payable and accrued expenses.....	108,755	142,498	11,966	263,219
Customer deposits.....	254,184	-	-	254,184
Other postemployment benefits.....	2,683	-	-	2,683
Compensated absences.....	<u>34,122</u>	<u>-</u>	<u>-</u>	<u>34,122</u>
<b>Total liabilities.....</b>	<u>399,744</u>	<u>142,498</u>	<u>11,966</u>	<u>554,208</u>
<b>Net Position:</b>				
Invested in capital assets, net of related debt.....	1,491,974	-	-	1,491,974
Restricted for utility expansion.....	73,533	-	-	73,533
Unrestricted.....	<u>369,951</u>	<u>6,052</u>	<u>7,262</u>	<u>383,265</u>
<b>Total net position.....</b>	<u>\$ 1,935,458</u>	<u>6,052</u>	<u>7,262</u>	<u>1,948,772</u>

The accompanying notes are an integral part of the financial statements.

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 PROPRIETARY FUNDS**

For the Year Ended September 30, 2014  
 TOWN OF PONCE INLET, FLORIDA

	Business-type Activities - Enterprise Funds			
	Water Utility	Sewer Utility	Refuse Utility	Totals
<b>Operating Revenues:</b>				
<b>Charges For Services:</b>				
Water sales.....	\$ 1,232,165	-	-	1,232,165
Connection fees.....	3,665	-	-	3,665
Sewer charges.....	-	855,166	-	855,166
Port Orange's connection/impact fees.....	12,635	32,534	-	45,169
Other administrative charges.....	16,377	20,912	-	37,289
Refuse and recycling charges.....	-	-	170,645	170,645
<b>Total operating revenue.....</b>	<b><u>1,264,842</u></b>	<b><u>908,612</u></b>	<b><u>170,645</u></b>	<b><u>2,344,099</u></b>
<b>Operating Expenses:</b>				
Cost of sales.....	741,226	-	-	741,226
Personal services.....	305,544	-	-	305,544
Materials and supplies.....	30,879	-	-	30,879
Maintenance and repairs.....	18,130	-	-	18,130
Contractual services.....	36,060	855,166	145,166	1,036,392
Other expenses.....	13,377	432	241	14,050
Impact/connect fee payments to Port Orange.....	12,635	30,900	-	43,535
Depreciation.....	<u>119,131</u>	-	-	<u>119,131</u>
<b>Total operating expenses.....</b>	<b><u>1,276,982</u></b>	<b><u>886,498</u></b>	<b><u>145,407</u></b>	<b><u>2,308,887</u></b>
<b>Operating income (loss).....</b>	<b><u>(12,140)</u></b>	<b><u>22,114</u></b>	<b><u>25,238</u></b>	<b><u>35,212</u></b>
<b>Nonoperating revenues (expenses):</b>				
Investment earnings (loss).....	938	(634)	(46)	258
Miscellaneous revenue (expense).....	235	-	-	235
Gain (loss) on asset disposals.....	-	-	-	-
<b>Net nonoperating revenue (expenses).....</b>	<b><u>1,173</u></b>	<b><u>(634)</u></b>	<b><u>(46)</u></b>	<b><u>493</u></b>
<b>Income (loss) before contributions and transfers.....</b>	<b>(10,967)</b>	<b>21,480</b>	<b>25,192</b>	<b>35,705</b>
Capital contributions.....	8,951	-	-	8,951
Transfer to General Fund.....	-	(10,000)	(12,000)	(22,000)
Transfer to Debt Service Fund.....	-	(12,500)	(12,500)	(25,000)
<b>Net increase (decrease) in net position.....</b>	<b>(2,016)</b>	<b>(1,020)</b>	<b>692</b>	<b>(2,344)</b>
<b>Net position - beginning of year.....</b>	<b><u>1,937,474</u></b>	<b><u>7,072</u></b>	<b><u>6,570</u></b>	<b><u>1,951,116</u></b>
<b>Net position - end of year.....</b>	<b><u>\$ 1,935,458</u></b>	<b><u>6,052</u></b>	<b><u>7,262</u></b>	<b><u>1,948,772</u></b>

The accompanying notes are an integral part of the financial statements.

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended September 30, 2014  
TOWN OF PONCE INLET, FLORIDA

	Business-type Activities - Enterprise Funds			
	Water Utility	Sewer Utility	Refuse Utility	Totals
<b>Cash Flows From Operating Activities:</b>				
Cash received from customers and users.....	\$ 1,297,094	904,482	170,854	2,372,430
Cash paid for personal services.....	(300,175)	-	-	(300,175)
Cash paid to suppliers and others.....	<u>(811,206)</u>	<u>(888,579)</u>	<u>(145,010)</u>	<u>(1,844,795)</u>
Net cash provided by (used in) operating activities.....	<u>185,713</u>	<u>15,903</u>	<u>25,844</u>	<u>227,460</u>
<b>Cash Flows From Noncapital and Related Financing Activities:</b>				
Nonoperating revenues received.....	235	-	-	235
Operating transfers paid.....	<u>-</u>	<u>(22,500)</u>	<u>(24,500)</u>	<u>(47,000)</u>
Net cash provided by (used in) non- capital and related financing activities.....	<u>235</u>	<u>(22,500)</u>	<u>(24,500)</u>	<u>(46,765)</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>				
Contributed capital received.....	21,586	-	-	21,586
Capital transfers to Port Orange.....	(12,635)	-	-	(12,635)
Acquisition of capital assets.....	<u>(85,764)</u>	<u>-</u>	<u>-</u>	<u>(85,764)</u>
Net cash provided by (used in) capital and related financing activities.....	<u>(76,813)</u>	<u>-</u>	<u>-</u>	<u>(76,813)</u>
<b>Cash Flows From Investing Activities:</b>				
Interest earnings received.....	1,147	34	1	1,182
Investment maturities.....	<u>7,636</u>	<u>6,329</u>	<u>1,645</u>	<u>15,610</u>
Net cash provided by (used in) investing activities.....	<u>8,783</u>	<u>6,363</u>	<u>1,646</u>	<u>16,792</u>
Net increase (decrease) in cash and cash equivalents.....	117,918	(234)	2,990	119,492
Cash and cash equivalents - Beginning of year.....	<u>331,133</u>	<u>70,375</u>	<u>(1,329)</u>	<u>400,179</u>
Cash and cash equivalents - End of year.....	<u>\$ 449,051</u>	<u>70,141</u>	<u>1,661</u>	<u>519,671</u>
<b>Reconciliation of cash and cash equivalents:</b>				
Unrestricted cash.....	\$ 375,559	70,141	1,661	447,361
Restricted cash.....	<u>73,492</u>	<u>-</u>	<u>-</u>	<u>73,492</u>
Total - all sources.....	<u>\$ 449,051</u>	<u>70,141</u>	<u>1,661</u>	<u>520,853</u>

The accompanying notes are an integral part of the financial statements.

**STATEMENT OF CASH FLOWS - (Continued)**  
**PROPRIETARY FUNDS**  
For the Year Ended September 30, 2014  
TOWN OF PONCE INLET, FLORIDA

	Business-type Activities - Enterprise Funds			
	Water Utility	Sewer Utility	Refuse Utility	Totals
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating income (loss).....	\$ (12,140)	22,114	25,238	35,212
Adjustments to reconcile net operating income to net cash provided by operating activities:				
Depreciation.....	119,131	-	-	119,131
Changes in assets and liabilities:				
Accounts receivable.....	6,090	(4,130)	209	2,169
Provisions for bad debt.....	-	(148)	(7)	(155)
Due from other governments.....	33,532	-	-	33,532
Prepaid expenses.....	(7,274)	-	-	(7,274)
Accounts payable.....	36,921	(1,933)	404	35,392
Other post employment benefits .....	2,683	-	-	2,683
Compensated absences.....	1,505	-	-	1,505
Customer deposits.....	<u>5,265</u>	<u>-</u>	<u>-</u>	<u>5,265</u>
Net cash provided by operating activities.....	<u>\$ 185,713</u>	<u>15,903</u>	<u>25,844</u>	<u>227,460</u>

The accompanying notes are an integral part of the financial statements.

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***NOTES TO THE FINANCIAL STATEMENTS***

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## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2014

TOWN OF PONCE INLET, FLORIDA

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Ponce Inlet, Florida (the “Town”), have been prepared in conformance with accounting principles generally accepted in the United States of America, as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted body for promulgating governmental accounting and financial reporting principles. The following is a summary of the Town’s significant accounting policies:

#### **A. Reporting Entity**

The Town of Ponce Inlet, Florida, is a municipal corporation created by the Laws of Florida, located in Volusia County. The Town was originally incorporated under the general laws of Florida in May 1963 under the provisions House Bill No. 1133 (amending Article 2, Section 4, of Chapter 63-1829, Laws of Florida, Special Acts of 1963), and the Municipal Home Rule Power Act, F.S. Ch. 166. The legislative branch of the Town is composed of an elected five-member Town Council consisting of the Mayor and four Council members. The Town Council is governed by the Town Charter and by state and local laws and regulations. The Town Council is responsible for the establishment and adoption of policy. The execution of such policy is the responsibility of the Council-appointed Town Manager.

The accompanying financial statements present the financial position, results of operations and cash flows of the applicable funds controlled by or dependent on the Town. In evaluating the Town as a reporting entity, management has addressed all potential component units for which the entity may or may not be financially accountable and, as such, be included within the Town’s financial statements.

***Discretely Presented Component Unit.*** The “component unit” column in the basic financial statements includes the financial data of the Ponce DeLeon Inlet Lighthouse Preservation Association, Inc. (the “Lighthouse Association”). The financial statements of the Lighthouse Association are discretely reported in separate columns to emphasize that it is legally separate from the Town (primary government). The Lighthouse Association was created exclusively to manage the contribution of citizen efforts, services and resources in the development, restoration, improvement and operation of the Ponce DeLeon Inlet Lighthouse, a historical site owned by the Town of Ponce Inlet, under the terms of a maintenance agreement dated May 22, 1985.

The Lighthouse Association was created as a non-profit corporation and is exempt from income taxes under the provisions of Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3). Under its corporate charter, the Lighthouse Association must devote at least 70% of its gross receipts to undertaking its stated purpose. Furthermore, the Town Council has the authority to disapprove any activity(ies) of the Lighthouse Association deemed not to be in harmony with the responsibilities of the Town and all Lighthouse Association assets revert to the Town upon its dissolution.

Complete financial statements of the component unit can be obtained directly from the Association’s administrative offices, which is as follows:

**Administrative Office:**  
Ponce DeLeon Inlet Lighthouse Preservation Association, Inc.  
4931 South Peninsula Drive  
Ponce Inlet, FL 32127

## NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2014

TOWN OF PONCE INLET, FLORIDA

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### **B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report aggregated information for the overall government for all of the activities of the primary government and the discretely presented component unit. The primary government is reported in two columns to separately report governmental activities from business-type activities. Component unit data is aggregated into a single column. These statements do not report fiduciary funds or fiduciary component units such as retirement trust funds. When applicable, those activities are reported only in fund financial statements. The effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other non-exchange revenues are reported separately from business-type activities, which are financed wholly or partially by fees charged to external parties for goods or services and are reported in enterprise funds.

The statement of net position presents the overall government's financial position at year-end. The statement of activities presents direct expenses of a given function or segment offset by program revenues for the fiscal reporting period. The resulting net expense or revenue is then totaled and offset by general revenues producing the aggregate change in net position for the period. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment of the government, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other nonexchange revenues not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual business-type funds are reported in separate columns in the fund financial statements.

### **C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or as soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 3 months of the end of the current fiscal period, except for property taxes, for which the period is 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

## NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2014

TOWN OF PONCE INLET, FLORIDA

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Property taxes, franchise fees, intergovernmental revenue, licenses and permits, charges for services, and interest earnings associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized and grouped into four classes, based on their principal characteristics. The accounting treatment for each type of transaction is as follows:

- **Derived Tax Revenue**, defined as assessments imposed on exchange transactions. Examples include: sales taxes, franchise tax, utility taxes, etc. Assets from derived tax revenue are recognized in the period when the exchange transaction on which the tax is imposed or when resources are received, whichever occurs first. Revenues are recognized, net of estimated uncollectible amounts, in the same period that the assets are recognized. Resources received in advance are recorded as deferred revenue until the period of the exchange.
- **Imposed Nonexchange Revenue**, result from assessments on nongovernmental entities, other than assessments on exchange transactions. Examples include: ad valorem (property) taxes, fines and penalties, and property forfeitures. Assets from imposed nonexchange revenues are recognized in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first. Property taxes are recognized in the period for which the taxes are levied. All other imposed nonexchange revenues are recognized in the same period that the assets are recognized.
- **Government-mandated Nonexchange Transactions**, frequently establish eligibility requirements before a transaction can occur. Examples include federal awards and state financial assistance. Until the requirements are met, the recipient does not have a receivable and the recognition of revenue received in advance is deferred. The providers (usually federal, state, and county governments) often offer resources on a reimbursement (“expenditure-driven”) basis at the time the recipient has incurred allowable costs under the applicable program.
- **Voluntary Nonexchange Transactions**, result from legislative or contractual agreements other than exchanges, entered into willingly by two or more parties. Examples include certain grants, entitlements, and donations by nongovernmental entities. Principal characteristics of these types of transactions are (1) they are not imposed on the provider or recipient, and (2) fulfillment of eligibility requirements is essential for a transaction to occur. Assets and revenues are recognized when all applicable eligibility requirements, including time requirements, are met. Resources received in advance are reported as deferred revenue.

Proprietary fund financial statements are reported using the accrual basis of accounting. Under this method, revenue is recorded when earned and expenses are recorded at the time liabilities are incurred. Based on the accounting and reporting standards set forth in Government Accounting Standards Board Statement No. 20, “*Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting*”, the Town has opted to apply only those accounting and reporting pronouncements issued by the GASB subsequent to November 30, 1989, as it pertains to the accounting for proprietary fund activity.

The Town’s accounts are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing

## NOTES TO THE FINANCIAL STATEMENTS – (Continued)

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TOWN OF PONCE INLET, FLORIDA

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accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The focus of the governmental and proprietary fund financial statements is on major funds, as defined and determined based on criteria established under Governmental Accounting Standards Boards Statement No. 34.

The Town reports the following major governmental funds:

- The **General Fund** is the principal fund of the Town which accounts for all financial transactions not accounted for in other funds. The majority of current operating expenditures of the Town other than proprietary fund activities are financed through revenues received by the General Fund.
- The **Timucuan Oaks Special Revenue Fund** is a special revenue fund established by the Town to separately account for the accumulation of resources from all operating grants, capital grants, and Town contributions which shall be expended on project related expenditures associated with the development of a Town park and recreation area.
- The **Public Land Acquisition and Facility Fund** is a special revenue fund established by the Town pursuant to Section 2-322 of the Town's Code of Ordinances to account for the accumulation of franchise fees on garbage services and public service taxes in the sale of electricity, metered natural gas, liquefied petroleum and manufactured gas which shall be expended on acquiring real estate and for the construction of public facilities.
- The **Debt Service Fund** is a debt service fund established by the Town to separately account for the resources accumulated and payments made for principal and interest on general long-term debt of the Town's governmental funds.

The Town reports the following major proprietary funds:

- The **Water Utility Fund** accounts for the costs and recovery of costs in the form of user charges related to the purchase and distribution of potable water within the Town. The maintenance and improvement of utility plant required to provide these goods and services are financed primarily from user charges.
- The **Sewer Utility Fund** accounts for the activities of the Town's sewer utility system, which is owned and operated by the City of Port Orange. The costs of wastewater collection and pumping systems are recovered by user charges billed to customers by the Town pursuant to customer rate schedules established by Port Orange. All utility service amounts billed by the Town, and collected from its customers, are subsequently remitted to the City of Port Orange.
- The **Refuse Utility Fund** accounts for the activities of the Town's refuse collection system which provides the community with refuse and recycling services provided by third-party contracted vendors, the costs of which are recovered by user charges.

## NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2014

TOWN OF PONCE INLET, FLORIDA

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Additionally, the Town reports the following fund types:

- ***Special Revenue Funds*** - are used to account for the proceeds of specific revenue sources (other than special assessments, or capital projects) which are legally restricted to finance particular functions or activities of the Town. These funds include the Tree Bank Fund, Sidewalks Fund, Parks and Recreation Fund, Police Education Fund and Contraband/Forfeitures Fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund Town activities has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes (when applicable) and other charges between the Town's water and sewer function and various other functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments, when applicable. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds are charges to customers for utility sales and services. The Town recognizes as operating revenue the portion of impact fees intended to recover the cost of connecting new customers to the water system. Impact and connection fees are also assessed and collected from sewer customers which are remitted directly to the City of Port Orange to recover their costs connecting new customers to the sewer system. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

### **D. Assets, Liabilities, and Net Position or Equity**

#### ***1. Deposits and Investments***

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The Town's investment policies are governed by state statutes and local ordinance. These policies authorize the Town to invest in the Local Government Surplus Funds Trust Fund, authorized intergovernmental investment pools, Securities and Exchange Commission registered money market

## **NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2014

TOWN OF PONCE INLET, FLORIDA

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funds (with rating exceptions), interest-bearing savings accounts, interest bearing certificates of deposits, interest bearing time deposits and direct obligations of the U.S. Treasury.

All of the Town's investments are reported at fair value, with the exception of investments in the 2a7-like pools (State Board of Administration Local Government Surplus Trust Fund Pool) which are stated at cost, or amortized cost, and are the same as the fair value of pool shares.

### ***2. Receivables and Payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances," when applicable.

All trade and property tax receivables are reported net of an allowance for uncollectible accounts, which is based upon management's analysis of historical trends. Utility operating sales are generally recognized on the basis of cycle billings rendered quarterly. Unbilled water, sewer and refuse accounts receivable are accrued by the Town at September 30th, to recognize the sales revenues earned between the last meter reading dates made in mid-September through the end of the fiscal year.

All unpaid property taxes receivable at year end are at least 180 days past due, at which time the applicable property is subject to lien, and penalties and interest are assessed.

### ***3. Inventories and Prepaid Items***

The cost of stored fuel inventory is accounted for on the consumption basis wherein inventories are charged as expenditures when used, rather than when purchased. All inventories are valued at cost, which approximates market. The effect of this method is to flow the costs of the fuel in the order in which they are purchased and to assign a balance sheet inventory valuation more nearly at current replacement value. No required minimum levels of inventory are maintained.

All other inventories are valued at the lower of actual cost or market and consist of the merchandise held for sale in the Lighthouse Association gift shop (a discretely presented component unit).

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/ expenses when consumed rather than when purchased.

### ***4. Restricted Assets***

Certain proceeds from the imposition of the Town's impact fee requirements and from building permits are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable legal indentures.

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2014

TOWN OF PONCE INLET, FLORIDA

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**5. Capital Assets**

Capital assets include property, plant, equipment and infrastructure assets. The terms general capital assets and general infrastructure assets relate only to the assets associated with governmental activities, whereas the terms capital assets and infrastructure assets relate to all such assets belonging to the Town. The Town has elected to report all known infrastructure assets and related depreciation expense on all infrastructure assets in the entity-wide statement of net position and statement of activities.

Capital assets are defined by the government as assets with an initial, individual cost of more than \$750 and an estimated useful life in excess of two years. Infrastructure assets are capitalized when their costs exceed \$5,000 and possess useful lives of more than two years. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized if they meet the dollar threshold above for capitalization.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized, but charged to operating expense as incurred.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Proprietary fund capital assets that are constructed include construction period interest that is capitalized net of interest earned on unexpended construction funds and, therefore, depreciated over the remaining useful life of the related asset, when applicable.

Depreciation is provided for by utilization of the straight-line method calculated on a service-life basis to amortize the cost of the assets over their economic estimated useful lives which are as follows:

Buildings.....	15 - 40 years
Source of supply plant.....	25 - 50 years
Pumping plant.....	25 - 50 years
Water treatment plant .....	25 - 50 years
Transmission and distribution plant .....	25 - 50 years
Infrastructure .....	15 - 50 years
Equipment.....	3 - 25 years

**6. Compensated Absences**

The portion of payroll costs paid subsequent to year-end attributable to services performed prior to year-end, including accumulated unpaid vacation and sick-leave, is recorded and recognized as a current liability. The portion of the liability for compensated absences attributable to periods beyond the current year is recognized as a long-term liability. The General Fund and Water Utility Fund employ personnel and are responsible for liquidating compensated absence obligations.

It is the Town's policy to grant employees personal leave based upon the number of years of employment with the Town. Annual leave for full-time general employees accrues at the rate of 144 to 264 hours per year based on number of years of employment. Annual leave for part-time (20-39 hours per week) general employees accrues at the rate of 72 to 132 hours per year based on number of years of employment. Annual leave for firefighters accrues at the rate of 204 to 372 hours per year based on number of years of employment. A cumulative total of 480 hours (60 days) is the maximum personal leave which may be carried over to the next calendar year. Upon termination, without cause, all accrued annual leave is paid.

## NOTES TO THE FINANCIAL STATEMENTS – (Continued)

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TOWN OF PONCE INLET, FLORIDA

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### **7. Unearned Revenue**

Unearned revenues are reported when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the Town before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Town has a legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized.

### **8. Long-term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Debt issuance costs, when incurred, are charged to expense in the fund receiving debt proceeds.

### **9. Net Position/Fund Balance**

In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Those classifications are as follows:

***Nonspendable*** – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash such as inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

***Restricted*** – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation (i.e. when the government to assesses, levies, charges, or otherwise mandates payment of resources from external resource providers and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation). The Town has classified Forfeitures as being restricted because their use is restricted by State Statute for police investigative expenditures. Debt service resources are to be used for future servicing of the revenue note and are restricted through debt covenants.

***Committed*** - This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Town Council. These amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

## NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2014

TOWN OF PONCE INLET, FLORIDA

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**Assigned** - This classification includes amounts that are constrained by the Town's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Town Council or through the Town Council delegating this responsibility to the Town Manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.

**Unassigned** - This classification includes the residual fund balance for the General Fund and fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Town would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

The Town Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the Town Council through adoption or amendment of the budget pursuant to the provisions of Part I, Article VI, Section 6.02 of the Town Charter as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

In 2009, The Town Council approved Resolution 2009-04, "Policy for Reserve/Contingency Level of Operating Budget (Policy). Under the Policy, a portion of the fund balance of the General Fund is committed for stabilization arrangements, such as might be needed in emergency situations or when revenue shortages or budgetary imbalances occur. The Policy states that, an amount equal to at least 3 months (25%) of the annual operating revenue of the General Fund is to be committed for use in covering current and future risks such as revenue shortfalls, natural disasters, unanticipated expenditures and to ensure stable tax rates. At September 30, 2014, \$1,332,377 of the fund balance for the General Fund was reported as committed for economic stabilization. The Policy recognizes that under extreme conditions, the use of resources may result in the committed fund balance amount dropping below the established threshold. Such amounts are required to be reinstated by the end of the subsequent fiscal year.

### **10. Use of Estimates**

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates assumed in preparing the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2014

TOWN OF PONCE INLET, FLORIDA

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### **E. New Accounting Standards**

In June 2012, GASB issued Statement No 68, *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27*. The objective of Statement 68 is to improve accounting and financial reporting by state and local governmental employers about the financial support for pensions that is provided by other entities. Statement 68 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014, which is the Town's fiscal year 2015. The impact to the Town's financial reporting has not been determined.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of Statement 69 is to provide specific accounting and financial reporting guidance for combinations in the governmental environment. This Statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposal of government operations. The provisions of Statement 69 are effective for fiscal years beginning after December 15, 2013, which is the Town's fiscal year 2015. The implementation of this statement is not expected to have a material effect on the Town's financial statements.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*- an amendment to GASB Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68 and are effective for fiscal years beginning after June 15, 2014, which is the Town's fiscal year 2015. The impact to the Town's financial reporting has not yet been determined.

## NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2014

TOWN OF PONCE INLET, FLORIDA

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### NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

#### A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net position

Following the governmental fund balance sheet is a reconciliation of the fund balance - total governmental funds and net position - governmental activities as reported in the government-wide statement of net position. A detailed explanation of these differences is provided in this reconciliation.

#### B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and the Government-Wide Statement of Activities

Following the governmental fund statement of revenues, expenditures, and changes in fund balances, there is a reconciliation of the net changes in fund balances - total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. A detailed explanation of these differences is provided in this reconciliation.

### NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

#### A. Budgetary Information

Annual budgets for all governmental and proprietary funds were adopted in compliance with Florida law. The basis on which the budgets are prepared is consistent with the basis of accounting utilized by the various fund types. The governmental funds' budgets are prepared on the modified accrual basis of accounting. The proprietary funds' budgets are prepared on a full accrual basis of accounting. The Town uses the following procedures in establishing the budgetary data reflected in the accompanying financial statements:

- On or before August 1st, the Town Manager submits a preliminary budget to the Town Council for the ensuing fiscal year.
- Budget workshop sessions are scheduled by the Town Council, as needed.
- A general summary of the budget and notice of public hearing is published in a local newspaper.
- Prior to October 1st, the budget is legally enacted through passage of an ordinance.
- The Town Council, by ordinance, may make supplemental appropriations in excess of those estimated for the year up to the amount of available revenue in accordance with Section 6.04 of the Town Charter. Prior to the end of the fiscal year, supplemental appropriations are typically made for unanticipated spending requirements by the Council.
- The Town Council must approve all inter-departmental budget amendments and/or appropriations transfers. The Town Manager is authorized to approve all intra-department budget amendments.

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

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- Budgetary control is exercised at the fund level.
- Every appropriation lapses at the close of the fiscal year.

**B. Excess of Expenditures over Appropriations**

During the year ended September 30, 2014 expenditures were incurred in excess of budgetary appropriations in the Timucuan Oaks special revenue fund in the amount of \$651 and the nonmajor Police Education special revenue fund in the amount of \$94, in both instances amounts were funded in its entirety from prior year surplus funds.

**NOTE 4 - PROPERTY TAX CALENDAR**

Under Florida law, the assessment of all properties and the collection of all county, municipal and school district property taxes are consolidated in the offices of the County Property Appraiser and County Finance Director. The laws of the state regulating tax assessment are also designed to assure a consistent property valuation method statewide. State Statutes permit municipalities to levy property taxes at a rate of up to 10 mills. The ad valorem millage rate assessed by the Town (2013 levy) was 6.500 mills. Collections on this levy were received during the year ended September 30, 2014. The Town's property tax calendar is as follows:

Assessment Roll Valuation Date	January 1												
Property Appraiser prepares the assessment roll with values as of January 1, submits preliminary roll for approval by the State and notifies each taxing authority of their respective valuations.	July 1												
Town Council holds two required public hearings and adopts a budget and ad valorem tax millage rate for the coming fiscal year.	September												
Property Appraiser certifies the assessment roll and all real and tangible personal property taxes are due and payable (Levy date).	November 1												
A Notice of Taxes is mailed to each property owner on the assessment roll. Taxes are paid November through March, with the following applicable discounts:	November 1												
<table><thead><tr><th><u>Month Paid</u></th><th><u>Discount</u></th></tr></thead><tbody><tr><td>November</td><td>4%</td></tr><tr><td>December</td><td>3%</td></tr><tr><td>January</td><td>2%</td></tr><tr><td>February</td><td>1%</td></tr><tr><td>March</td><td>None</td></tr></tbody></table>	<u>Month Paid</u>	<u>Discount</u>	November	4%	December	3%	January	2%	February	1%	March	None	
<u>Month Paid</u>	<u>Discount</u>												
November	4%												
December	3%												
January	2%												
February	1%												
March	None												
All unpaid taxes on real/tangible personal property become delinquent.	April 1												
Listings of unpaid real and personal property taxes are advertised.	April/May												

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2014

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Tax certificates are sold on all real estate parcels with unpaid real property taxes (Lien date).

June 1

A court order is obtained authorizing the seizure and sale of personal property if the taxpayer fails to pay the delinquent taxes

August

**NOTE 5 - DEPOSITS AND INVESTMENTS**

**Deposits.** At September 30, 2014, the carrying value of the Town’s cash deposit accounts totaled \$2,376,757 and the bank balance totaled \$2,478,248. Cash deposits and certificates of deposit totaling \$1,749,014, are held by banks that are fully insured and/or collateralized at September 30, 2014, as required by Chapter 280, Florida Statutes. Amounts do not include \$620 in cash funds on hand at the end of the fiscal year.

At September 30, 2014, the carrying value of the Lighthouse Association’s bank deposits totaled \$575,008. The bank balances for these deposits totaled \$575,008, all of which was insured and/or collateralized by the Federal Deposit Insurance Corporation. In addition, the Lighthouse Association holds \$185,667 in certificates of deposit, all of which are FDIC insured.

**Investments.** As of September 30, 2014, the Town had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (Years)	
		Less Than 1	From 1 - 5
<b>Certificates of deposit:</b>			
Florida Qualified Public Depositories.....	\$ 750,014	250,000	500,014
Custodial and Non-Florida Depositories.....	<u>999,000</u>	<u>999,000</u>	-
Total certificates of deposit - primary government.....	1,749,014	1,249,000	500,014
Lighthouse Association - component unit.....	<u>185,667</u>	-	<u>185,667</u>
Total Certificates of Deposits.....	<u>1,934,681</u>	<u>1,249,000</u>	<u>685,681</u>
<b>Local Government Investment Pool:</b>			
State Board of Administration, Local Government Surplus Trust Fund Investment Pool			
Florida PRIME.....	<u>1,507</u>	<u>1,507</u>	-
Totals.....	<u>\$ 1,936,188</u>	<u>1,250,507</u>	<u>685,681</u>

## NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2014

TOWN OF PONCE INLET, FLORIDA

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The Town's investments consist of amounts invested in certificates of deposit and the Local Government Surplus Trust Fund managed by the Florida State Board of Administration (SBA). The SBA is part of the Local Government Surplus Trust Fund and is governed by Chapter 19-7 of the Florida Administrative Code. These rules provide guidance and establish the general operating procedures for the administration of the Local Government Surplus Trust Fund. As a Florida PRIME pool participant, the Town invests in a pool of investments whereby the Town owns a share of the respective pool, not the underlying securities.

The Town accounts for and reports its money market investment pools as a "2a-7 like" or fluctuating net asset value (NAV). A "2a-7 like" pool is an "external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with Rule 2a-7 under the Investment Company Act of 1940 (the "1940 Act"). Rule 2a-7 is the rule that permits money market funds to use amortized cost to maintain a constant NAV of \$1.00 per share, provided that such funds meet certain conditions.

The Town has interpreted that the Florida PRIME is a SEC 2a-7 like fund, thus the account balance is also considered the fair value of the investment.

The Lighthouse Association's investments consist of amounts invested in certificates of deposit with average maturities of 15 months.

**Interest Rate Risk.** Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. The Town has developed formal investment policies that limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All investments are governed by the Town's Investment Policies and related state statutes. Generally, the Town limits the acquisition of investments with maturities of greater than twenty-four months, unless such investments are purchased for holding to maturity. Interest rate risk is minimized for all other investments, which are normally held for periods of less than one year.

GASB 40, "*Deposit and Investment Risk Disclosures*," requires that interest rate risk be disclosed using one of the five approved methods for all debt investments as well as investments in mutual funds, external investment pools, and other pooled investments that do not meet the definition of a 2a-7 like pool. The five methods are: segmented time distribution, specific identification, weighted average maturity (WAM), duration, and simulation model. Different methods may be presented for different types of investments.

At September 30, 2014, the WAM of the Florida PRIME is 44 days. Next interest rate reset dates for floating rate securities are used in the calculation of the WAM.

## NOTES TO THE FINANCIAL STATEMENTS – (Continued)

September 30, 2014

TOWN OF PONCE INLET, FLORIDA

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**Credit Risk.** The Town's investment policies allow the government to invest in Local Government Surplus Trust Fund Investment Pool, United States Government Securities, United States Government Agencies, federal instrumentalities, interest bearing time deposits or savings accounts, repurchase agreements, commercial paper, bankers' acceptances, state and/or local governmental taxable and/or tax-exempt debt, registered investment companies (money market and mutual funds), and authorized intergovernmental investment pools.

The Florida PRIME is rated by Standard and Poors, with a rating of AAAM as of September 30, 2014.

**Concentrations of Credit Risk.** The Town's investment policies place limits on portfolio composition, individual issuers and maturity limitations, all of which vary for each allowable investment type. Supplemental due diligence requirements have been established that must be met prior to investing with registered investment companies and intergovernmental investment pools.

**Custodial Credit Risk.** Custodial credit risk is the risk that in the event of a failure of a depository, the Town's deposits may not be returned to it. Pursuant to the applicable provisions of Chapter 280, Florida Statutes, *The Florida Security for Public Deposits Act* ("the Act"), the State of Florida, Department of Financial Services, Division of Treasury, Bureau of Collateral Management have established specific requirements relative to security and collateralization for public deposits. Accordingly, banks qualifying as a public depository in the State of Florida must adopt the necessary procedures outlined in these statutes and meet all of the requirements of this chapter to be designated by the State's Chief Financial Officer as eligible to receive deposits from municipal depositors. Collateral having a market value equal to 50% of the average daily balance for each month of all public deposits in excess of any applicable depository insurance is required to be pledged or deposited with the State's Chief Financial Officer to secure such deposits. Additional collateral, up to a maximum of 125% may be required if deemed necessary under the conditions set forth in the Act. Securities eligible to be pledged as collateral are generally limited to obligations of the United States government and any state thereof and are held in the name of the State Chief Financial Officer's office. Compliance with the provisions of Chapter 280, Florida Statutes, is monitored by a Qualified Public Depository Oversight Board with members appointed by the State Chief Financial Officer.

At September 30, 2014, the carrying amount of the Town's deposits in the Local Government Surplus Funds Trust Fund was \$1,507, all of which was covered by collateral securities in accordance with the Act. All remaining deposits and investments were adequately covered by federal depository insurance and/or the statutory provisions of the Act.

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2014

TOWN OF PONCE INLET, FLORIDA

**NOTE 6 – DISAGGREGATION OF RECEIVABLES AND PAYABLES**

**Receivables:** Amounts are aggregated into single accounts receivable (net of allowance for uncollectible accounts) lines for certain funds and aggregated columns. Below is a detail of receivables for the governmental and business-type activities anticipated to be collected within an operating cycle:

Receivables, net	Primary Government			Component Unit
	Government Activities	Business Type Activities	Total	Lighthouse
Accounts receivable.....	\$ 108,722	53,092	161,814	-
Delinquent taxes receivable.....	2,603	-	2,603	-
Unbilled accounts receivable.....	-	176,710	176,710	-
Due from other governments.....	<u>101,808</u>	<u>-</u>	<u>101,808</u>	<u>-</u>
	213,133	229,802	442,935	-
Less: allowance for doubtful accounts....	<u>(2,603)</u>	<u>(1,900)</u>	<u>(4,503)</u>	<u>-</u>
Net receivables.....	<u>\$ 210,530</u>	<u>227,902</u>	<u>438,432</u>	<u>-</u>

**Payables:** Amounts are aggregated into single accounts payable and accrued liability lines for certain funds and aggregated columns. Below is a detail of payables for the governmental and business-type activities anticipated to be paid within an operating cycle:

Accounts Payable/Accrued Liabilities	Primary Government			Component Unit
	Government Activities	Business Type Activities	Total	Lighthouse
Accounts payable.....	\$ 191,805	113,658	305,463	47,677
Accrued wages.....	57,896	6,451	64,347	-
Accrued employee benefits.....	8,178	612	8,790	-
Due to other governments.....	<u>-</u>	<u>142,498</u>	<u>142,498</u>	<u>-</u>
Net payables.....	<u>\$ 257,879</u>	<u>263,219</u>	<u>521,098</u>	<u>47,677</u>

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2014

TOWN OF PONCE INLET, FLORIDA

**NOTE 7 – INTERFUND BALANCES AND TRANSFERS**

*Interfund Transfers* - Transfers occur to move revenues from various funds to debt service funds as debt service principal and interest payments become due and to move funds to finance various programs, provide grant matching funds, or to subsidize operations that the Town must account for in other funds in accordance with budgetary authorizations. Interfund transfers between the Town’s governmental and business-type funds during the fiscal year ended September 30, 2014, are as follows:

	Transfer <u>From</u>	Transfer <u>To</u>
Governmental Activities:		
General Fund:		
Debt Service Fund.....	\$ -	131,544
Tree Bank Special Revenue Fund .....	5,369	-
Sewer Utility Fund.....	10,000	-
Refuse Utility Fund.....	12,000	-
Debt Service Fund:		
General Fund.....	131,544	-
Public Land Acquisition and Facility Fund.....	324,691	-
Sewer Utility Fund.....	12,500	-
Refuse Utility Fund.....	12,500	-
Public Land Acquisition and Facility Fund:		
Debt Service Fund.....	-	324,691
Nonmajor Funds:		
Tree Bank Special Revenue Fund:		
General Fund .....	-	5,369
	<u>508,604</u>	<u>461,604</u>
		<u>47,000</u>
Business-type Activities:		
Sewer Utility Fund:		
General Fund.....	-	10,000
Debt Service Fund.....	-	12,500
Refuse Utility Fund:		
General Fund.....	-	12,000
Debt Service Fund.....	-	12,500
	<u>-</u>	<u>47,000</u>
	<u>(47,000)</u>	
Totals - All funds.....	<u>\$ 508,604</u>	<u>508,604</u>

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2014

TOWN OF PONCE INLET, FLORIDA

**NOTE 8 - CAPITAL ASSETS**

**A. Governmental Activities**

The following is a summary of changes in capital assets during the year:

	Balances 9/30/2013	<u>Additions</u>	<u>Deletions</u>	Balances 9/30/2014
Capital assets, not being depreciated,				
Land.....	\$ 4,569,460	-	-	4,569,460
Construction in progress.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	4,569,460	-	-	4,569,460
Capital assets, being depreciated,				
Buildings.....	5,411,804	-	(1,500)	5,410,304
Improvements other than buildings.....	5,026,966	12,325	(328,767)	4,710,524
Equipment and furniture.....	<u>2,339,505</u>	<u>219,643</u>	<u>(93,593)</u>	<u>2,465,555</u>
	12,778,275	231,968	(423,860)	12,586,383
Less: accumulated depreciation.....	<u>(4,129,764)</u>	<u>(518,612)</u>	<u>422,739</u>	<u>(4,225,637)</u>
	<u>8,648,511</u>	<u>(286,644)</u>	<u>(1,121)</u>	<u>8,360,746</u>
Net capital assets.....	<u>\$ 13,217,971</u>	<u>(286,644)</u>	<u>(1,121)</u>	<u>12,930,206</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government.....	\$ 148,494
Public safety.....	132,186
Physical environment.....	83,702
Transportation.....	54,953
Culture/recreation.....	<u>99,277</u>

Total depreciation expense..... \$ 518,612

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2014

TOWN OF PONCE INLET, FLORIDA

**B. Business-Type Activities**

The following is a summary of changes in capital assets during the year:

	Balances 9/30/2013	Additions	Deletions	Balances 9/30/2014
Capital assets, not being depreciated,				
Land.....	\$ 4,033	-	-	4,033
Construction in progress.....	-	82,232	-	82,232
	<u>4,033</u>	<u>82,232</u>	<u>-</u>	<u>86,265</u>
Capital assets, being depreciated,				
Improvements other than buildings.....	3,150,069	-	-	3,150,069
Equipment and furniture.....	151,901	3,533	(7,099)	148,335
	3,301,970	3,533	(7,099)	3,298,404
Less: accumulated depreciation.....	(1,780,663)	(119,131)	7,099	(1,892,695)
	<u>1,521,307</u>	<u>(115,598)</u>	<u>-</u>	<u>1,405,709</u>
Net capital assets.....	<u>\$ 1,525,340</u>	<u>(33,366)</u>	<u>-</u>	<u>1,491,974</u>

There was no capitalized interest on outstanding tax-exempt debt obligations charged to completed and uncompleted projects during the year. There was no interest earnings recognized from the temporary investment of tax-exempt debt proceeds during the year. Depreciation expense for the year ended September 30, 2014 totaled \$119,131.

**C. Discretely Presented Component Unit – Lighthouse Association**

The following is a summary of changes in capital assets during the year:

	Balances 9/30/2013	Additions	Deletions	Balances 9/30/2014
Capital assets, not being depreciated,				
Land.....	\$ 407,450	-	-	407,450
Museum artifact collection.....	636,217	182,886	-	819,103
	<u>1,043,667</u>	<u>182,886</u>	<u>-</u>	<u>1,226,553</u>
Capital assets, being depreciated,				
Restoration and improvements.....	2,767,841	44,848	-	2,812,689
Equipment and furniture.....	306,078	4,499	(10,864)	299,713
	3,073,919	49,347	(10,864)	3,112,402
Less: accumulated depreciation.....	(1,250,977)	(93,308)	10,864	(1,333,421)
	<u>1,822,942</u>	<u>(43,961)</u>	<u>-</u>	<u>1,778,981</u>
Net capital assets.....	<u>\$ 2,866,609</u>	<u>138,925</u>	<u>-</u>	<u>3,005,534</u>

Depreciation expense for the year ended September 30, 2014 totaled \$93,308.

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2014

TOWN OF PONCE INLET, FLORIDA

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**NOTE 9 - LEASE INCOME**

The Town entered into an operating lease agreement to lease a portion of its real property for the construction of a cellular telephone tower. This lease was dated February 9, 2000, and had an initial term of five years, with four successive five-year renewal options. The second of the four successive five-year renewals was exercised in 2010, and will expire in 2015. The lease provides for annual rentals of \$18,648 throughout the second five-year extension period ending in 2015, \$20,793 for the third five-year extension period ending in 2020, and \$23,184 for the fourth five-year extension period ending 2025. This agreement shall continue in force for one-year periods if the agreement has not been terminated at the end of the fourth five-year extension, with rentals equal to that of the final five-year extension term. Lease revenue totaled \$18,648 for the year ended September 30, 2014. There was no revenue from subleases or assignments. Future minimum rentals to be received over the noncancelable remaining term of the lease are as follows: 2015 - \$18,648.

**NOTE 10 - OPERATING LEASES**

The Town leases equipment under operating leases and with the exception of the non-cancelable operating lease listed below, these leases have cancellation provisions and are subject to annual appropriations. For the year ended September 30, 2014, lease expenditures totaled \$10,159 for all types of leases.

*Non-cancelable Lease.* The Town leases office equipment under an agreement with an original term of five years, which is scheduled to expire in December, 2016. The minimum lease payments under this lease agreement are as follows: 2015- \$8,180; 2016- \$8,180; and 2017- \$2,045.

**NOTE 11 - LONG-TERM DEBT**

The Town's long-term debt is comprised of the following at September 30, 2014:

**A. Primary Government – Governmental Activities**

**Capital Improvement Revenue Note, Series 2005**

In April 2005, the Town issued a Capital Improvement Revenue Note, Series 2005, which was originally issued for \$4,030,000 and is payable through July 2025. Proceeds from the note were used to finance the acquisition of real property and for related capital improvements. The note is secured by a pledge of the Town's electric and liquid propane utility tax, solid waste franchise fee, and the Florida Power and Light franchise fee. The note bears interest at a fixed rate of 4.11% and is payable semi-annually on January 1 and July 1 through maturity on July 1, 2025. Principal payments are due annually on July 1 through maturity on July 1, 2025. The balance due on this obligation at September 30, 2014 totaled \$2,858,957. Current maturities due on this obligation totaled \$211,000 at September 30, 2014.

The total remaining principal and interest to be paid on the note totals \$3,611,006. During the current year, electric and liquid propane utility tax, solid waste franchise fee, and the Florida Power and Light franchise fee revenue was \$602,609, compared to annual debt requirements of \$328,848.

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2014

TOWN OF PONCE INLET, FLORIDA

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**Clean Water State Revolving Fund Loan**

In October 2004, the Town entered into a state revolving fund loan agreement with the State of Florida Department of Environmental Protection to finance the planning, design, and construction of stormwater pollution control facilities. The loan is secured by specific pledged revenues which include the Town's cell tower lease revenue, one to six cents local option fuel taxes, telecommunications excise taxes and a pledged annual transfer of \$25,000 from the utility enterprise fund. The original loan bears interest at 2.95% per annum for the first disbursement of \$96,559, 2.65% per annum for the first loan amendment disbursement of \$1,668,216, and 2.57% for the second loan amendment disbursement of \$303,500 and 2.62% for the third loan amendment disbursement of \$303,500. The loan is payable in semiannual payments due in March and September and becomes due in September 2026. The aggregate balance due on this obligation at September 30, 2014 was \$1,600,706. Current maturities due on this obligation totaled \$114,946 at September 30, 2014.

The total remaining principal and interest to be paid on the loan totals \$1,879,030. During the current year, the pledged revenues identified above totaled \$360,939, compared to annual debt requirements of \$156,586.

**Loan Restrictions and Covenants** - Pursuant to Sections 3.01 and 6.01 of the Loan Agreement, the Town is required to make Monthly Loan Deposits to the Loan Debt Service Account equal to one-sixth of the next succeeding semi-annual interest and principal payments. In the event of a failure to make the Monthly Loan Deposits, the Town is required to promptly notify the State of Florida Department of Environmental Protection of any such failure. During the year ended September 30, 2014, the Town made all the mandatory transfers on a timely basis, transferring the equivalent of the whole year's transfer in October 2013.

**Changes in Long-Term Debt**

A summary of changes in the Town's governmental activities long-term debt for the year is as follows:

	<u>Balances</u> 9/30/2013	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> 9/30/2014
Notes payable:				
Capital Improvement Revenue Note, Series 2005.....	\$ 3,061,957	-	(203,000)	2,858,957
Florida Department of Environmental Protection State Revolving Fund Loan.....	<u>1,712,667</u>	-	<u>(111,961)</u>	<u>1,600,706</u>
	4,774,624	-	(314,961)	4,459,663
Compensated absences.....	<u>259,371</u>	<u>77,811</u>	<u>(67,265)</u>	<u>269,917</u>
Total long-term debt.....	<u>5,033,995</u>	<u>77,811</u>	<u>(382,226)</u>	4,729,580
Less: current maturities.....				<u>(325,946)</u>
Net long-term debt.....				<u>\$ 4,403,634</u>

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2014

TOWN OF PONCE INLET, FLORIDA

**Debt Service to Maturity**

Aggregate debt service requirements to maturity on long-term debt obligations are as follows:

Fiscal Year Ended September 30,	Capital Improvement Note Series 2005		FDEP State Revolving Fund Loan		Total
	Principal	Interest	Principal	Interest	
2014.....	211,000	117,505	114,946	41,640	485,091
2015.....	219,000	108,833	118,010	38,575	484,418
2016.....	229,000	99,832	121,156	35,429	485,417
2017.....	238,000	90,420	124,386	32,200	485,006
2018.....	248,000	80,638	127,702	28,883	485,223
2019-2023.....	1,399,000	241,874	691,434	91,495	2,423,803
2024-2026.....	<u>314,957</u>	<u>12,947</u>	<u>303,072</u>	<u>10,102</u>	<u>641,078</u>
Total - all periods.....	<u>\$ 2,858,957</u>	<u>752,049</u>	<u>1,600,706</u>	<u>278,324</u>	<u>5,490,036</u>

**B. Primary Government – Business-Type Activities**

The Town has no formal long-term debt obligations for business-type activities as of September 30, 2014. However, the Town provides for the recognition of compensated absences within the department which an employee serves.

**Changes in Long-Term Debt**

A summary of changes in the Town’s business-type activities long-term debt for the year is as follows:

	Balances 9/30/2013	Additions	Deletions	Balances 9/30/2014
Compensated absences.....	<u>32,617</u>	<u>9,785</u>	<u>(8,280)</u>	<u>34,122</u>
Total long-term debt.....	<u>32,617</u>	<u>9,785</u>	<u>(8,280)</u>	<u>34,122</u>
Less: current maturities.....				<u>-</u>
Net long-term debt.....				<u>\$ 34,122</u>

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2014

TOWN OF PONCE INLET, FLORIDA

**NOTE 12 – NET POSITION**

The following table contains the individual components of the reported fund balance classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used at September 30, 2014:

Fund Balances	Major Funds					Total
	General Fund	Timucuan Oaks Fund	Public Land Acquisition and Facility Fund	Debt Service Fund	Nonmajor Funds	
Nonspendable:						
Inventories.....	\$ 7,003	-	-	-	-	7,003
Prepays.....	111,636	-	-	-	-	111,636
Restricted:						
Public safety.....	-	-	-	-	19,814	19,814
Debt service.....	-	-	-	4,420	-	4,420
Transportation gas tax.....	96,737	-	-	-	-	96,737
Committed:						
Operating reserve.....	1,332,377	-	-	-	-	1,332,377
Public Land Acquisitions...	-	-	696,231	-	-	696,231
Assigned:						
General government.....	40	-	-	-	-	40
Public safety.....	824	-	-	-	-	824
Emergency relief.....	100,000	-	-	-	-	100,000
Recreation.....	13,759	69,261	-	-	45,985	129,005
Unassigned.....	879,646	-	-	-	-	879,646
	<u>\$ 2,542,022</u>	<u>69,261</u>	<u>696,231</u>	<u>4,420</u>	<u>65,799</u>	<u>3,377,733</u>

**NOTE 13 – EMPLOYEES’ PENSION PLANS**

**A. Florida Retirement System - Full-time Police Officers, Firefighters and General Employees**

**Plan Description.** The Town contributes to the Florida (public employee) Retirement System of the State of Florida (the “FRS”), a cost-sharing, multiple-employer defined benefit pension plan created in December, 1970, that acts as a common investment and administrative agent for municipalities and other qualifying political subdivisions in the State of Florida for all regular full-time and regular part-time employees that were employed after September 30, 2007. Prior to October 1, 2007, the Town’s full-time police officers and firefighters were the only participants in the Florida Retirement System. The defined benefit pension plan, which is administered by the State of Florida, Department of Management Services, Division of Retirement, provides retirement and disability benefits and death benefits to plan members and beneficiaries. Benefit provisions are established under Chapter 121, Florida Statutes, which may be amended by the Florida Legislature. The Florida Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The complete financial report of the FRS may be obtained from the "System Information" section of the

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2014

TOWN OF PONCE INLET, FLORIDA

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"Publications" page of the Division of Retirement's website at <http://frs.MyFlorida.com> or by writing the division at P. O. BOX 9000 Tallahassee, Florida, 32315-9000; or e-mailing Research and Education at [rep@dms.MyFlorida.com](mailto:rep@dms.MyFlorida.com) or calling toll free at (877) 377-1737.

**Funding Policy:** The funding methods and determination of benefits payable are provided in the various acts of the Florida Legislature, which created the fund, including subsequent amendments thereto. The FRS funding policy provides for monthly employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due based upon plan assumptions. Employer contribution rates are established by state law as a level percentage of payroll. Employer contribution rates are determined using the entry-age actuarial cost method. The consulting actuary recommends that rates based on the annual valuation, but actual contribution rates are established by the Florida Legislature. Unfunded actuarial liability as a result of future plan benefit changes, assumption changes, or methodology changes, is assumed to be amortized over 30 years, using level dollar amounts. Except for gains reserved for rate stabilization, it is anticipated future actuarial gains and losses are amortized on a rolling 10 percent basis, as a level dollar amount.

Employer contributions to the plan for the fiscal years ended September 30, 2014, 2013, and 2012 totaled \$313,237, \$237,225, and \$204,392, respectively. Effective July 1, 2011, covered employees are required to contribute 3% of qualifying wages to the plan. Employees' contributions to the plan for the fiscal years ended September 30, 2014, 2013 and 2012 totaled \$63,131, \$62,279, and \$62,380, respectively.

The following is a summary of employer contribution percentages for qualifying compensation paid to general participants and special risk participants in effect during each of the past three fiscal years (rates specified below include an additional 1.11% for the Town's option to include the health insurance subsidy contribution):

	<u>Regular Employees Employer</u>	<u>Special Risk Employee</u>	<u>Drop Employer</u>	<u>Drop Employee</u>
From July 1, 2011 to June 30, 2012.....	4.91%	3.00%	14.10%	4.42%
From July 1, 2012 to June 30, 2013.....	5.18%	3.00%	14.90%	5.44%
From July 1, 2013 to June 30, 2014.....	6.95%	3.00%	19.06%	12.84%
From July 1, 2014 to June 30, 2015.....	7.37%	3.00%	19.82%	12.28%

**B. Defined Contribution Plans - General Employees**

**Florida Municipal Pension Trust Fund (the "FMPTF")** - The Town participates in a qualified defined contribution plan created in accordance with Internal Revenue Code Section 401(a) to receive fixed employer contributions, which is administered by Florida League of Cities, Inc., P. O. Box 1757, Tallahassee, FL 32302-1757. Under Section 2-221 of the Town's Code of Ordinances, the Town established this plan for all regular full time and regular part time employees, except police officers and firefighters. All qualifying employees, with no age requirement, are eligible to participate in the plan immediately upon the date of employment. Employer contributions to the plan were 10% of the gross employee wages. Employees do not vest in employer contributions to the 401 Plan until after participating for 5 full years in the plan, at which time employees are 100% vested in the Plan.

To accommodate both employer and employee contributions, the Town also offers all employees participation in an unqualified deferred compensation plan created in accordance with Internal Revenue

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2014

TOWN OF PONCE INLET, FLORIDA

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Code Section 457(b), and Section 2-291 of the Town's Code of Ordinances, to receive employee contributions. Annual contributions are limited to the amounts allowed by federal tax laws. Employees immediately vest in the elective deferral contributions made to the 457 Plan. The vested portions of the accounts or contributions to the plan are available to the participants immediately upon termination of service. The Town has the power to amend plan provisions at any time.

On August 15, 2007, the Town Council adopted Ordinance 2007-20, amending the pension plan for general employees to allow for the conversion to the Florida Retirement System, effective October 1, 2007. As a result of these actions, twenty-two employees opted to withdraw from the above described retirement plan options and convert to the Florida Retirement System. Seven employees remained in the Plan. No new employees will be eligible for entry in the 401(a) plan after October 1, 2007.

The required employer contributions to the 401(a) Plan for the fiscal years ended September 30, 2014, 2013, and 2012, were \$10,271, \$3,942, and \$3,932, respectively. Employee contributions to the discretionary 457 Plan for the fiscal years ended September 30, 2014, 2013, and 2012 were \$7,632, \$16,812, and \$17,604, respectively.

***International City Management Association Retirement Corporation (the "ICMA")*** - Under Section 2-291 of the Town's Code of Ordinances, the Town's employees may contribute to an unqualified deferred compensation plan created in accordance with Internal Revenue Code Section 457 to receive employee contributions, which is administered by ICMA, 777 N. Capitol Street NE, Washington, DC 20002-4240. The Town's employees are eligible to participate in the 457 Plan immediately upon the date of employment. Annual contributions are limited to the amounts allowed by federal tax laws. Employees immediately vest in the elective deferral contributions made to the 457 plan.

Employee contributions to the 457 Plan for the fiscal years ended September 30, 2014, 2013, and 2012, were \$11,600, \$18,000, and \$16,359, respectively.

***Nationwide Retirement Solutions*** - Under Section 2-291 of the Town's Code of Ordinances, the Town's employees may contribute to an unqualified deferred compensation plan created in accordance with Internal Revenue Code Section 457 to receive employee contributions, which is administered by Nationwide Retirement Solutions, P. O. Box 182797, Columbus, OH 43218-2797. Annual contributions are limited to the amounts allowed by federal tax laws. Employees immediately vest in the elective deferral contributions made to the 457 plan.

Employee contributions to the 457 Plan for the fiscal years ended September 30, 2014, 2013, and 2012, totaled \$58,989, \$47,799, and \$21,175, respectively.

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2014

TOWN OF PONCE INLET, FLORIDA

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**NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

**Plan Description.** Town of Ponce Inlet, Florida, Other Postemployment Benefits Plan (the “OPEB Plan”) is a single-employer healthcare plan administered by the Town. Pursuant to Section 112.0801, Florida Statutes, the Town is required to permit participation in the OPEB Plan to retirees and their eligible dependents at a cost to the retiree that is no greater than the cost at which coverage is available for active employees. Eligible individuals include all regular employees of the Town who retire from active service under one of the pension plans sponsored by the Town. Under certain conditions, eligible individuals also include spouses and dependent children. The OPEB Plan does not issue a publicly available financial report.

**Funding Policy.** The contribution requirements of plan members and the Town are based on composite health insurance premium costs which are established by state statutes and may be amended by the state legislature. The required contribution is based on projected pay-as-you-go financing requirements and is subject to constant revision. The Town has opted to not fund the net OPEB obligation or the resulting unfunded actuarial accrued liability on an annual basis.

**Annual OPEB Cost and Net OPEB Obligation.** The Town's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Town’s annual OPEB for the year, the amount actually contributed to the plan, and changes in the Town’s net OPEB obligation to the Plan based on a the most recent actuarial valuation dated October 1, 2013:

	<u>09/30/2014</u>
Annual required contribution (ARC).....	\$ 17,640
Interest on prior Net OPEB obligation.....	718
Prior Net OPEB obligation adjustment.....	<u>(985)</u>
Annual OPEB cost (expense).....	17,373
Estimated net contributions made.....	<u>(5,620)</u>
Increase in net OPEB obligation.....	11,753
Net OPEB obligation-beginning of year.....	<u>15,945</u>
Net OPEB obligation-end of year.....	<u>\$ 27,698</u>

**NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2014

TOWN OF PONCE INLET, FLORIDA

The Town’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percent of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
09/30/14	\$17,373	\$ 5,620	32.3%	\$ 27,698
09/30/13	13,367	8,037	60.1%	15,945
09/30/12	13,137	8,022	61.1%	10,615

**Funded Status and Funding Progress.** Based on the October 1, 2013 actuarial valuation, the funded status of the OPEB Plan was as follows:

Actuarial accrued liability (AAL) .....	\$ 93,620
Actuarial value of plan assets.....	<u>0</u>
Unfunded actuarial accrued liability (UAAL) .....	<u>\$ 93,620</u>
Funded ratio (actuarial value of plan assets/AAL).....	0.00%
Covered payroll (annual payroll of active employees covered by the plan).....	\$ 1,903,651
UAAL as a percentage of covered payroll.....	4.9%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions.** Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2013 actuarial valuation, the Entry Age Normal Cost Method was used. The actuarial assumptions included a 4.5% funding interest rate, an annual (pre- and post-Medicare) healthcare cost trend rate of 7.5% percent in 2014, reduced by 1% annual decreases to an ultimate rate of 6.5% in 2015. If, and when, funded, the actuarial value of assets will be determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll (closed amortization over 30 years) with payroll growth/inflation assumed to be 0.0%.

## **NOTES TO THE FINANCIAL STATEMENTS – (Continued)**

September 30, 2014

TOWN OF PONCE INLET, FLORIDA

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### **NOTE 15 - COMMITMENTS AND CONTINGENCIES**

Amounts received or receivable from grantor agencies in current and prior years are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund(s). The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

### **NOTE 16 - RISK MANAGEMENT**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, all of which is satisfactorily insured by general liability insurance. Commercial insurance policies are also obtained for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

### **NOTE 17 – LEGAL MATTERS**

The Town has been named as a defendant in a lawsuit and resultant claim regarding alleged damages from land use decisions made by the Town Council. On November 17, 2014, the 7<sup>th</sup> Judicial Court of Volusia County issued an amended final judgment against the Town, in the amount of \$30,775,249.29. In addition to this amount, the Court has reserved jurisdiction to award professional fees and costs against the Town. The final judgment also addresses and has included post judgment interest under Florida Statutes (currently at 4.75% per annum). Subsequent, to this judgment, the Town has filed an appeal which it intends to vigorously pursue alleging significant misinterpretation and misapplications of the law. At this stage, management believes it is impracticable to determine whether the likelihood of an unfavorable outcome is either probable or remote, since the results of the appeal could drastically affect that analysis. Claims resulting from litigation that are only reasonably possible to estimate are not accrued in the financial statements.

The Town is also from time to time engaged in routine litigation incidental to the conduct of its municipal affairs. In the opinion of the Counsel to the Town, no other legal proceedings are pending or threatened which may materially affect the financial condition of the Town.

### **NOTE 18 – SUBSEQUENT EVENTS**

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through February 26, 2015, the date the financial statements were available to be issued.

***REQUIRED SUPPLEMENTARY INFORMATION***

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**OTHER POSTEMPLOYMENT BENEFIT OBLIGATION**  
For the Year Ended September 30, 2014  
TOWN OF PONCE INLET, FLORIDA

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
10/1/2013	\$ -	\$ 93,620	\$ 93,620	0.00%	\$ 1,903,651	4.9%
10/1/2012	n/a	n/a	n/a	n/a	n/a	n/a
10/1/2011	n/a	n/a	n/a	n/a	n/a	n/a
10/1/2010	\$ -	\$ 87,235	\$ 87,235	0.00%	\$ 1,748,392	5.0%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Employer Contribution</u>	<u>Other Contribution</u>	<u>Percent Contributed</u>
9/30/2014	\$ 17,373	\$ 5,620	\$ -	32.35%
9/30/2013	\$ 13,367	\$ 8,037	\$ -	60.13%
9/30/2012	\$ 13,137	\$ 8,022	\$ -	61.06%

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***OTHER SUPPLEMENTARY INFORMATION***

***COMBINING FINANCIAL STATEMENTS***

***BUDGETARY COMPARISON SCHEDULES***

***OTHER MAJOR FUNDS***

***OTHER NONMAJOR FUNDS***

**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
September 30, 2014  
TOWN OF PONCE INLET, FLORIDA

	Special Revenue Funds			
	Tree Bank	Sidewalks	Parks and Recreation	Police Education
<b>Assets:</b>				
Cash and cash equivalents.....	\$ 8,388	32,376	5,221	11,465
Due from other governments.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>142</u>
<b>Total assets.....</b>	<b><u>\$ 8,388</u></b>	<b><u>32,376</u></b>	<b><u>5,221</u></b>	<b><u>11,607</u></b>
<b>Fund Balances:</b>				
Restricted.....	-	-	-	11,607
Assigned.....	<u>8,388</u>	<u>32,376</u>	<u>5,221</u>	<u>-</u>
<b>Total fund balances.....</b>	<b><u>\$ 8,388</u></b>	<b><u>32,376</u></b>	<b><u>5,221</u></b>	<b><u>11,607</u></b>

Contraband Forfeitures	Total- Nonmajor Governmental Funds
8,207	65,657
<u>-</u>	<u>142</u>
<u>8,207</u>	<u>65,799</u>
8,207	19,814
<u>-</u>	<u>45,985</u>
<u>8,207</u>	<u>65,799</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS**  
 For the Year Ended September 30, 2014  
 TOWN OF PONCE INLET, FLORIDA

	Special Revenue Funds			
	Tree Bank	Sidewalks	Parks and Recreation	Police Education
<b>Revenue:</b>				
Permits and fees.....	\$ 1,076	-	2,435	-
Fines and forfeitures.....	-	-	-	1,232
<b>Miscellaneous:</b>				
Investment earnings (loss).....	4	17	2	7
Miscellaneous revenue.....	-	3,698	-	-
	4	3,715	2	7
<b>Total revenue.....</b>	<b>1,080</b>	<b>3,715</b>	<b>2,437</b>	<b>1,239</b>
<b>Expenditures</b>				
<b>Current:</b>				
Public safety.....	-	-	-	1,540
<b>Total expenditures.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,540</b>
Excess of revenue over (under) expenditures.....	1,080	3,715	2,437	(301)
<b>Other Financing Sources (Uses):</b>				
Operating transfers (out).....	(5,369)	-	-	-
<b>Net change in fund balances.....</b>	<b>(4,289)</b>	<b>3,715</b>	<b>2,437</b>	<b>(301)</b>
Fund Balances - Beginning of year.....	12,677	28,661	2,784	11,908
Fund Balances - End of year.....	\$ 8,388	32,376	5,221	11,607

<u>Contraband Forfeitures</u>	<u>Total- Nonmajor Governmental Funds</u>
<u>-</u>	<u>3,511</u>
<u>-</u>	<u>1,232</u>
2	32
<u>-</u>	<u>3,698</u>
<u>2</u>	<u>3,730</u>
<u>2</u>	<u>8,473</u>
<u>-</u>	<u>1,540</u>
<u>-</u>	<u>1,540</u>
2	6,933
<u>-</u>	<u>(5,369)</u>
2	1,564
<u>8,205</u>	<u>64,235</u>
<u>8,207</u>	<u>65,799</u>

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL - DEBT SERVICE FUND**  
 For the Year Ended September 30, 2014  
 TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues:				
Miscellaneous Revenues:				
Investment earnings (loss).....	\$ 198	240	60	(180)
Total revenues.....	198	240	60	(180)
Expenditures:				
Debt Service:				
2005 Capital Improvement Revenue Note:				
Principal payments.....	203,000	203,000	203,000	-
Interest payments.....	125,848	125,848	125,848	-
State Revolving Fund Loan:				
Principal payments.....	111,961	111,961	111,961	-
Interest payments.....	44,624	44,624	44,624	-
	<u>485,433</u>	<u>485,433</u>	<u>485,433</u>	<u>-</u>
Total expenditures.....	485,433	485,433	485,433	-
Excess of revenue over (under) expenditures .....	<u>(485,235)</u>	<u>(485,193)</u>	<u>(485,373)</u>	<u>(180)</u>
Other Financing Sources (Uses):				
Operating transfer from General Fund.....	131,544	131,510	131,544	34
Operating transfer from Public Land Acquisition and Facility Fund.....	324,691	326,683	324,691	(1,992)
Operating transfer from Sewer Fund.....	12,500	12,500	12,500	-
Operating transfer from Refuse Fund.....	12,500	12,500	12,500	-
Appropriated fund balance.....	4,000	2,000	-	(2,000)
Total other financing sources (uses).....	<u>485,235</u>	<u>485,193</u>	<u>481,235</u>	<u>(3,958)</u>
Net change in fund balance.....	-	-	(4,138)	(4,138)
Fund Balance - Beginning of year.....	<u>8,558</u>	<u>8,558</u>	<u>8,558</u>	<u>-</u>
Fund Balance - End of year.....	<u>\$ 8,558</u>	<u>8,558</u>	<u>4,420</u>	<u>(4,138)</u>

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL - TREE BANK SPECIAL REVENUE FUND**  
 For the Year Ended September 30, 2014  
 TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues:				
Permits and fees:				
Tree assessment.....	\$ -	1,076	1,076	-
Miscellaneous:				
Investment earnings (loss).....	<u>4</u>	<u>5</u>	<u>4</u>	<u>(1)</u>
Total revenues.....	4	1,081	1,080	(1)
Total expenditures.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenue over (under) expenditures .....	<u>4</u>	<u>1,081</u>	<u>1,080</u>	<u>(1)</u>
Other Financing Sources (Uses):				
Operating transfer to General Fund.....	-	(5,369)	(5,369)	-
Appropriated fund balance.....	-	4,288	-	(4,288)
Appropriated for future use.....	<u>(4)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses).....	<u>(4)</u>	<u>(1,081)</u>	<u>(5,369)</u>	<u>(4,288)</u>
Net change in fund balances.....	-	-	(4,289)	(4,289)
Fund Balances - Beginning of year.....	<u>12,677</u>	<u>12,677</u>	<u>12,677</u>	<u>-</u>
Fund Balances - End of year.....	<u>\$ 12,677</u>	<u>12,677</u>	<u>8,388</u>	<u>(4,289)</u>

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL - SIDEWALKS SPECIAL REVEUNE FUND**  
 For the Year Ended September 30, 2014  
 TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues:				
Miscellaneous:				
Investment earnings (loss).....	\$ 16	23	17	(6)
Miscellaneous revenue.....	<u>-</u>	<u>3,698</u>	<u>3,698</u>	<u>-</u>
Total revenues.....	<u>16</u>	<u>3,721</u>	<u>3,715</u>	<u>(6)</u>
Expenditures:				
Culture/Recreation:				
Operating expenditures.....	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures.....	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenue over (under) expenditures .....	<u>(2,484)</u>	<u>3,721</u>	<u>3,715</u>	<u>(6)</u>
Other Financing Sources (Uses):				
Appropriated fund balance.....	2,484	-	-	-
Appropriated for future use.....	<u>-</u>	<u>(3,721)</u>	<u>-</u>	<u>3,721</u>
Total other financing sources (uses).....	<u>2,484</u>	<u>(3,721)</u>	<u>-</u>	<u>3,721</u>
Net change in fund balance.....	-	-	3,715	3,715
Fund Balance - Beginning of year.....	<u>28,661</u>	<u>28,661</u>	<u>28,661</u>	<u>-</u>
Fund Balance - End of year.....	<u>\$ 28,661</u>	<u>28,661</u>	<u>32,376</u>	<u>3,715</u>

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL - PARKS AND RECREATION SPECIAL REVENUE FUND**  
 For the Year Ended September 30, 2014  
 TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	<u>Original</u>	<u>Final</u>		
Revenues:				
Permits and fees:				
Impact fees-residential.....	\$ 2,086	2,435	2,435	-
Miscellaneous:				
Investment earnings (loss).....	<u>5</u>	<u>2</u>	<u>2</u>	<u>-</u>
Total revenues.....	<u>2,091</u>	<u>2,437</u>	<u>2,437</u>	<u>-</u>
Expenditures:				
Culture/Recreation:				
Capital outlay.....	<u>4,100</u>	<u>200</u>	<u>-</u>	<u>200</u>
Total expenditures.....	<u>4,100</u>	<u>200</u>	<u>-</u>	<u>200</u>
Excess of revenue over (under) expenditures .....	<u>(2,009)</u>	<u>2,237</u>	<u>2,437</u>	<u>200</u>
Other Financing Sources (Uses):				
Appropriated fund balance.....	2,009	-	-	-
Appropriated for future use.....	<u>-</u>	<u>(2,237)</u>	<u>-</u>	<u>2,237</u>
Total other financing sources (uses).....	<u>2,009</u>	<u>(2,237)</u>	<u>-</u>	<u>2,237</u>
Net change in fund balance.....	-	-	2,437	2,437
Fund Balance - Beginning of year.....	<u>2,784</u>	<u>2,784</u>	<u>2,784</u>	<u>-</u>
Fund Balance - End of year.....	<u>\$ 2,784</u>	<u>2,784</u>	<u>5,221</u>	<u>2,437</u>

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL - POLICE EDUCATION SPECIAL REVENUE FUND**  
 For the Year Ended September 30, 2014  
 TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	Original	Final		
<b>Revenues:</b>				
Fines and Forfeitures:				
Fines and forfeitures.....	\$ 1,588	1,125	1,232	107
Miscellaneous:				
Investment earnings (loss).....	<u>6</u>	<u>8</u>	<u>7</u>	<u>(1)</u>
Total revenues.....	1,594	1,133	1,239	106
<b>Expenditures:</b>				
Public Safety:				
Law Enforcement:				
Operating expenditures.....	<u>-</u>	<u>1,446</u>	<u>1,540</u>	<u>(94)</u>
Total expenditures.....	<u>-</u>	<u>1,446</u>	<u>1,540</u>	<u>(94)</u>
Excess of revenue over (under) expenditures .....	<u>1,594</u>	<u>(313)</u>	<u>(301)</u>	<u>12</u>
<b>Other Financing Sources (Uses):</b>				
Operating transfer to General Fund.....	(6,000)	-	-	-
Appropriated fund balance.....	5,985	313	-	(313)
Appropriated for future use.....	<u>(1,579)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses).....	<u>(1,594)</u>	<u>313</u>	<u>-</u>	<u>(313)</u>
Net change in fund balances.....	-	-	(301)	(301)
Fund Balances - Beginning of year.....	<u>11,908</u>	<u>11,908</u>	<u>11,908</u>	<u>-</u>
Fund Balances - End of year.....	<u>\$ 11,908</u>	<u>11,908</u>	<u>11,607</u>	<u>(301)</u>

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL - CONTRABAND FORFEITURES SPECIAL REVENUE FUND**  
 For the Year Ended September 30, 2014  
 TOWN OF PONCE INLET, FLORIDA

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Miscellaneous:				
Investment earnings (loss).....	\$ 4	3	2	(1)
Total revenues.....	4	3	2	(1)
Expenditures:				
Public Safety:				
Law Enforcement:				
Operating expenditures.....	4	3	-	3
Total expenditures.....	4	3	-	3
Excess of revenue over (under) expenditures .....	-	-	2	2
Other Financing Sources (Uses):				
Operating transfer to General Fund.....	(3,825)	-	-	-
Appropriated fund balance.....	3,825	-	-	-
Net change in fund balances.....	-	-	2	2
Fund Balances - Beginning of year.....	8,205	8,205	8,205	-
Fund Balances - End of year.....	\$ 8,205	8,205	8,207	2

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***COMPLIANCE SECTION***

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**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor  
and Members of the Town Council  
Town of Ponce Inlet, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Ponce Inlet, Florida (the “Town”), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements and have issued our report thereon dated February 26, 2015. Our report includes a reference to other auditors who audited the financial statements of the Ponce DeLeon Inlet Lighthouse Preservation Association, Inc., the discretely presented component unit, which represent 100 percent of the assets, net position, and revenues of the discretely presented component unit, as described in our report on the Town’s financial statements. This report includes our consideration of the results of the other auditor’s testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Ponce Inlet, Florida’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Ponce Inlet, Florida’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Ponce Inlet’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The Honorable Mayor  
and Members of the Town Council  
Town of Ponce Inlet, Florida  
Page 2

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However material weaknesses may exist that have not been identified.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Ponce Inlet, Florida's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BMC CPAs

February 26, 2015

## MANAGEMENT LETTER

The Honorable Mayor  
and Members of the Town Council  
Town of Ponce Inlet, Florida

### Report on Financial Statements

We have audited the financial statements of Town of Ponce Inlet, Florida, (the “Town”) as of and for the fiscal year ended September 30, 2014, and have issued our report thereon dated February 26, 2015.

### Auditors’ Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Chapter 10.550, Rules of the Auditor General.

### Other Reports and Schedule

We have issued our Independent Auditor’s Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Accountant’s Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated February 26, 2015, should be considered in conjunction with this management letter.

### Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report, except as noted in the attached Management Letter Comments under the heading of Prior Year Matters.

### Official Title and Legal Authority

Section 10.554(1)(i)4., Rules of the Auditor General, requires the name or official title and legal authority for the primary government and each component unit of the reporting entity to be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information is reported in Note 1 to the financial statements.

### **Financial Condition**

Section 10.554(1)(i)5.a., Rules of the Auditor General, requires that we report the results of our determination as to whether or not the Town has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Town did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the Town's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by the same. As part of our fiscal year end assessment, we evaluated the results of financial indicators developed by the Office of the Auditor General for quantitative analysis financial information, the results of which, continued to show a negative trend when compared to prior years. See our commentary on the results of our financial condition assessment procedures in the attached Management Letter Comments

### **Annual Financial Report**

Section 10.554(1)(i)5.b., Rules of the Auditor General, requires that we report the results of our determination as to whether the annual financial report for the Town for the fiscal year ended September 30, 2014, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2014. In connection with our audit, we determined that these two reports were in agreement.

### **Other Matters**

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

### **Purpose of this Letter**

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

*BMC CPAs*  
February 26, 2015

## MANAGEMENT LETTER COMMENTS

Year Ended September 30, 2014

TOWN OF PONCE INLET, FLORIDA

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### PRIOR YEAR MATTERS

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we address in the management letter, if not already addressed in the auditor's report on compliance and internal control, whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. The following table summarizes the status of the prior year findings and management letter comments issued by the external auditor in fiscal year 2013:

	Corrective Action Not Yet Complete	Comment Has Been Addressed Or Is No Longer Relevant	Prior Year Reference Number
Financial Condition Assessment Procedures	x		ML 2012-01
Investment of Public Funds		x	ML 2013-01
Utility Payments to City of Port Orange		x	ML 2013-02

All prior year matters have been appropriately resolved, except for the following:

#### **ML 2012-01 Financial Condition Assessment Procedures**

Chapter 10.550, Rules of the Auditor General require certain disclosures in the management letter when mandatory financial condition assessment procedures reveal a declining financial position, and whether the declines are due to deteriorating financial position. These procedures also require the Town to make representations concerning whether resources are available to fund anticipated future deficits. As of September 30, 2014, the Town's financial condition assessment was inconclusive, however three of the four critical financial condition assessment indicators used rated as unfavorable, which suggest a potential decline in the Town's overall financial position. The three unfavorable financial condition assessment indicators are summarized as follows.

- *Financial Indicator No.2-Unassigned and Assigned Fund Balance plus Unrestricted Net Assets.* At September 30, 2014, 2013, and 2012, the Town's aggregate (adjusted) unassigned and assigned fund balances and unrestricted net assets totaled \$1,243,262, \$1,139,453, and \$1,339,328, respectively. Over the three year period, the Town's net equity has declined from \$2.8 million at the end of 2011 to \$1.2 million at the end of 2014, which represents an aggregate equity decline of 57%. While steps have been employed by the Town, the resultant three-year trend continues to indicate a potential deterioration of financial position.
- *Financial Indicator No.4 (G)-Cash & Investments divided by Current Liabilities-Governmental Funds.* The aggregate balance of unrestricted cash and investments stated as a percent of current liabilities in the Town's governmental activities has declined for three consecutive years. These continued declines in liquidity over each of the three years indicate a continuing deterioration of financial position.

- *Financial Indicator No.4 (P)-Cash & Investments divided by Current Liabilities-Proprietary Funds.* The aggregate balance of unrestricted cash and investments stated as a percent of current liabilities in the Town's business-type activities has shown a decline for the three year period ending September 30, 2014 and is reported 72% lower than the average of the Town's peer group.

Recommendation: A significant portion of the Town's decline in liquidity and net reserves for the three year period ending September 30, 2014 can be attributed to the unanticipated and continuing costs of legal services incurred representing the Town as the defendant in a material and ongoing legal proceeding. Over the last three year period, the Town has faced difficulty in identifying and developing significant additional source(s) of revenue capable of offsetting or recovering these litigation costs, which are expected to continue into next year, or longer. To partially mitigate this condition, the Town has successfully retained unassigned and assigned fund equity, including amounts committed for contingency funding (of 25% of the annual operating revenue in the General Fund of \$1.3 million at the end of 2014) sufficient to provide stability during this period. In that respect, aggregate mounts retained in the General Fund continue to remain relatively reasonable and represent approximately 44% (or 5.3 months) of the Town's annual General Fund operating expenditures. However, these current levels of surplus equity may be difficult to maintain in future years.

We continue to recommend that steps should be considered to ensure that the Town is continually monitoring its liquidity and reserve requirements to ensure that it can continue to meet its ongoing operational funding requirements. We also recommend that the Town should develop and implement procedures that require the continuous monitoring of the Town's financial position, and take the necessary steps to restore sound financial health and stability.

*Auditee Response: The Town has been faced with an unprecedented lawsuit for the past several years. In balancing the cost necessary to provide legal defense with reasonable increase in taxes, the Town Council has authorized the use of some of its excess reserve each year. However, for the last two years, the actual expenses have been lower than anticipated so funds have returned to the reserve, rather than been drawn from. The Town Manager and Town Council will continue to monitor this closely*

**INDEPENDENT ACCOUNTANTS' REPORT**

The Honorable Mayor  
and Members of the Town Council  
Town of Ponce Inlet, Florida

We have examined the Town of Ponce Inlet, Florida's compliance with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, during the year ended September 30, 2014. Management is responsible for the Town of Ponce Inlet, Florida's compliance with those requirements. Our responsibility is to express an opinion on the Town of Ponce Inlet, Florida's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Town of Ponce Inlet, Florida's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Town of Ponce Inlet, Florida's compliance with specified requirements.

In our opinion, the Town of Ponce Inlet, Florida complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2014.

This report is intended solely for the information and use of management and the State of Florida Auditor General and is not intended to be and should not be used by anyone other than the specified parties.

*BMC CPAs*

February 26, 2015

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